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ASIA'S TRADE

*A Study of the Trade of Asian Countries with Each Other
and with the Rest of the World*

BY

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PREFACE

Much of the statistical information contained in this Paper is compiled from the publications of the League of Nations and particularly from *The Network of World Trade*, 1942. Much use has also been made of *The Foreign Commerce Yearbook*, 1939, of the U.S. Department of Commerce. Grateful acknowledgements to these valuable sources are made.

The difficulty of converting the various national currencies into units comparable to each are well known to students of international trade statistics. Figures in this Paper are as far as possible in U.S. dollars of pre-war value. In the case of comparisons going back to the period before the value of U.S. dollar was reduced (in 1933) and in some other special cases, the former gold dollar has been retained. The pre-war U.S. dollar was equal to 59.062 gold cents; or, in other words, values expressed in gold dollars can be converted into pre-war dollars by multiplying the gold dollar values by 1.693.

In a Paper dealing with separate aspects of foreign trade, repetition is inevitable, although every attempt has been made to minimize it. A summary of conclusions is appended to the more important chapters in order to make reading and cross-reference as easy as possible.

Practically all the statistical material in this Paper relates to pre-war years. Trade accounts of the war years are not generally available and in any case they could not have furnished any accurate picture of the normal trends in foreign trade. Statistics for the first post-war year are generally available; but they, too, cannot furnish any accurate basis for generalization about the post-war trends. It is however claimed that the picture of Asia's foreign trade based on pre-war data gives most of the information required for the post-war reconstruction of that trade.

Most grateful acknowledgements are made to Mr. J. A. Naqvi, Librarian of the Economic Adviser to the Government of India for his ungrudging help at every stage. Mr. R. S. Dhanjal of the Economic Adviser's Office has done all the

charts in this Paper. Mr. J. L. Roy, an Economic Investigator in that Office, has been associated with the preparation of this Paper from the very beginning and much of the most difficult compilation work has been done by him. Without his help, this Paper could not have been prepared. Dr. P. P. Pillai of the Indian Branch of the I.L.O. has also given me much assistance in the preparation of this Paper. I have benefited greatly from the breadth of his outlook and many of the ideas in this Paper have arisen out of my discussions with him.

New Delhi, 15 July 1947

B. G. GHATE

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CHAPTER 1

THE CONTINENT OF ASIA

THE UNDERLYING UNITY OF ASIAN PROBLEMS

From whatever angle one may approach Asia's economy, it is obvious that the countries of this Continent have many features in common, and face many common problems. These problems are, moreover, for the most part, specific to Asia as such and different from those confronting the industrialized West. This Paper which was originally prepared for the Asian Relations Conference, is concerned with Asia's trade and examines the features which give it a special significance in the picture of world trade as a whole. It examines the causes of the present comparative backwardness of Asia's trade and its narrow specialization. It also applies itself in considerable detail to the analysis of intra-Asian trade and the necessity of developing it in the interests of all the Asian countries. The Paper argues that the post-war development of Asian countries will be greatly accelerated through a proper development of their foreign trades and that such development can only be brought about by the co-operative effort of all the Asian countries acting together. It makes several suggestions for the achievement of this goal, and argues that national policies co-ordinated and regulated on a pan-Asian basis will be necessary in every field of Asia's trade.

Asian trade problems must be considered against the background of forces which are at the present time rapidly tending to unify Asia and which are exerting a far-reaching influence on the economic and social development of the Asian countries. Broadly speaking the main factors in Asian economy can be grouped as follows :

(i) The high plateaux, in the heart of the continent, give Asian countries a certain similarity of climate and vegetation.

(ii) The enormous population of the continent with its present trend towards a rapid unchecked increase creates its

own special problems which are common to many of the Asian countries, but which are entirely different from those of non-Asian countries.

(iii) The abundance of Asia's raw materials, many of which are yet to be fully exploited, and her manpower gives Asian trade a special significance of its own.

(iv) Blessed with these abundant resources, Asia still presents a picture of a group of under-developed countries with very low standards of living. Asia has therefore her own problems of industrial and agricultural organization, labour welfare, public health and foreign trade. Furthermore, Asian countries must pass through similar difficulties in the initial stages of development and these difficulties, needing their own special treatment, will be very different from those of non-Asian countries.

Finally, there is the pressing urge of every Asian nation for its national freedom, and, this is stirring Asian society to its depths. Above everything else, Asia wants her own freedom and wants it as soon as possible. And to an Asian, freedom means the freedom to plan and regulate his domestic life according to his own economic and cultural standards; freedom to uplift his own people as soon as possible and freedom to deal as he likes with the outside world.

Asian economics thus assumes a special significance of its own. It concedes the validity of the theories of comparative costs and natural or geographical advantage; it recognizes the importance of free trade on a world basis; it looks with awe and respect on the achievements of the mechanically industrialized countries of the world; and it is most anxious to play its legitimate role in world development and reconstruction.

But in the sphere of international economic policies, Asia must make its own reservations. Asia is endowed with almost unlimited resources and manpower; her economy is broadbased on agriculture; her mode of living is essentially rural; and she has an ancient culture and civilization which

cannot be allowed to be destroyed by industrialization. Asia will and must use the machine; but she can never let it become the master. She must also promote her ancient handicrafts, if not on grounds of utmost economic need, on the ground of employing the creative faculties of the millions of farmers who live in places far removed from industrial centres. She must improve her agriculture, and she must raise the economic status of the farming population. She must stamp out disease. In short, she must plan and regulate her industrial development for the good of the people as a whole. Anything which deflects her from these broad objectives will be viewed with suspicion; but assured that they will not clash with schemes of world economic development, Asia will be only too proud to play the part assigned to her by the world.¹

1. This attitude is so well summed up by Pandit Jawaharlal Nehru himself:—

Where do the hundreds of millions of Asia and Africa come in this picture? They have become increasingly conscious of themselves and their destiny, and at the same time have become world-conscious. Large numbers of them follow world events with interest. For them, inevitably the best of each move or happening is this: Does it help toward our liberation? Does it end the domination of one country over another? Will it enable us to live freely the life of our choice in co-operation with others? Does it bring equality and equal opportunity for nations as well as groups within each nation? Does it hold forth the promise of an early liquidation of poverty and illiteracy and bring better living conditions? They are nationalistic, but this nationalism seeks no dominion over or interference with others. They welcome all attempts at world co-operation and the establishment of an international order, but they wonder and suspect if this way may not be another for continuing the old domination. Large parts of Asia and Africa consist of awakened, discontented, seething humanity no longer prepared to tolerate existing conditions. Conditions and problems differ greatly in the various countries of Asia, but throughout this vast area, in China and India, in South-east Asia, in Western Asia and the Arab world run common threads of sentiment and invisible links which hold them together.

Discovery of India, New York: (John Day Co.) 1946, p. 559.

GEOGRAPHICAL FACTORS

The continent of Asia, including Asian Russia, covers an area of nearly 18,000,000 sq. miles and extends over one-

| Area in million sq. miles | | third of the entire land-surface of the globe. It is the biggest and the oldest continent of the world. The distance between its extreme longitudes, the west coast of Asia Minor (26°E) and the East Cape (170°W) is nearly 6,000 miles. The extreme latitudes, Cape Chelyuskin (78°N) and Cape Buru (90 miles north of the Equator) are 5,350 miles apart. Asia is bounded by the ocean on all sides except on the west; and the Isthmus of Suez connects it |
|------------------------------|---------|---|
| Asia and the U.S.S.R. | 18·7 | |
| Europe | .. 2·1 | |
| Africa | .. 11·7 | |
| North America | .. 8·4 | |
| South America | .. 7·0 | |
| Oceania | .. 3·2 | |
| | 51·1 | |

with Africa. The land boundary between Europe and Asia is formed on the west mainly by the Ural Mountains and the Ural River.

The central range of high mountains in the heart of the continent imparts a great variety of climates and physical features to the whole of Asia. These mountains with their high plateaux occupy more than a fifth of the surface of the continent. On the south-western side of these plateaux lie the countries of Afghanistan, Iran, Iraq and Arabia. Towards the north-west stretch the low lands of Siberia, and to the north-east comes the great land of China with its historic civilization and the river-basins of the Hwang-Ho, the Yangtse-Kiang, and the Si-kiang. On the south, over an area of nearly two million sq. miles, stretch the rich and fertile plains of India and the Ganges and the Indus. Farthest to the south are the tropical regions of Malaya, Ceylon and the East Indies.

It would be impossible to divorce the meteorology of Asia from its structural features. From the meteorological point of view, Asia must be considered as a single land mass having a total area approaching nearly 20,000,000 sq. miles. The heart of the continent is more than 1,500 miles from the nearest

seaboard, a circumstance which is alone sufficient to ensure conditions of extreme continentality, and might, in any case, be expected to result in a great difference between summer and winter conditions. Furthermore, the orographical structure of Asia is such as to accentuate the climatic features due to the vast size of the land mass. Its central core of lofty plateaux with their buttress of high mountains prevents the penetration of oceanic influences to the interior. As a result the winters are exceedingly cold in the plains lying to the north of this central barrier. Conversely, the plains and the deserts of the Middle East, India, Burma and Thailand are completely shut off from Arctic influences and in the summer some of the highest temperatures of the world are recorded there.

Because of its size and peculiar orographical structure, Asia has a great variety of climates. Nonetheless, the outstanding characteristic of the most populous regions of the continent is the periodicity of rainfall.

The *equatorial climate* occurs in the East Indies, in Malaya, and, in a modified form, in Ceylon. There is some rainfall during all the seasons of the year and there is no definite dry season, as it exists in India, Burma or China. More than half of the annual rainfall, however, occurs during the three or four months of the summer season.

The *tropical monsoon climate* occurs mainly within the tropics and the typical 'monsoon lands' are India, Burma, Siam, Malaya, Indo-China and Southern China. Here the rain falls largely in the summer and there are definitely marked dry seasons. The annual variations of temperature are small, ranging between 10° and 40°F. For the sake of convenience, Central and Northern China and Japan may also be included in the 'monsoon lands', their rainfall being seasonal and due to causes similar to those operating in the typical 'monsoon land' of India. The only difference would be the greater range of variation in annual temperatures and the greater cold in the winter.

The *desert climate* of Iran, Iraq and Arabia is characterized by an extreme paucity of rainfall and large variations both in the daily and annual ranges of temperature. With an

annual variation in the average monthly maximum temperatures of over 60°F Tehran has a rainfall of less than nine inches per year.

The northern low lands of Asia and Asian Russia have a cold climate with large variations of temperature and scanty rainfall.

PRESSURE OF POPULATION

The remarkable features of the Asian population are the absolute numbers involved at present and the rapid rate at which they are expected to increase during the next few decades.

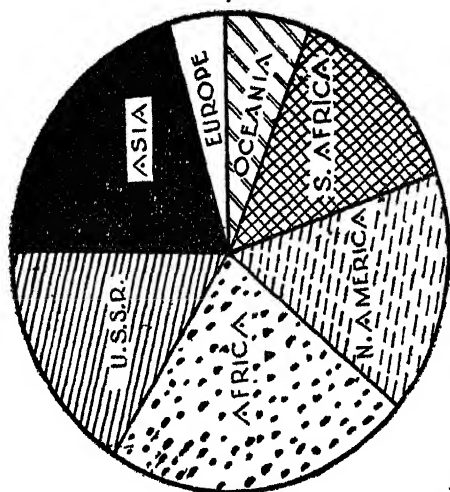
On any computation Asia contains as many inhabitants as the rest of the world put together.² The population of India, estimated at 390 millions in 1941, cannot now be less than 415 millions, and is expected to reach the 500 million figure by 1971. No official census of the entire Chinese population has been taken, but reliable semi-official Chinese sources put it at 460 millions; and the annual net increase in China cannot be less than 4,500,000. The population of Japan proper doubled during the seventy years preceding the outbreak of World War II and the annual natural growth during most of that period was about 1.3 per cent., a figure far in excess of any known in India. The present population of all the former Japanese territories taken together cannot be less than 145 millions.

| 2. | Estimated World Population 1940 (Millions) | |
|------------------|---|-------|
| Europe | .. | 403 |
| USSR | .. | 172 |
| Africa | .. | 158 |
| North America | .. | 163 |
| Other continents | .. | 123 |
| Asia | .. | 1,200 |
| | | <hr/> |
| Total | .. | 2,219 |
| | | <hr/> |

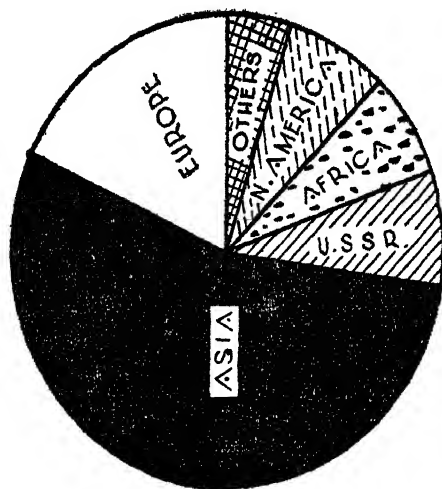
CHART I

AREA & POPULATION OF ASIA

POPULATION



AREA



DRAWN BY :-
R S. DHANJAL

The Estimated Approximate Populations of Asian Countries in 1940

| | (Millions) |
|--|------------|
| Afghanistan | .. 007·0 |
| Arabia | .. 007·0 |
| China and Dependencies | .. 460·0 |
| India | .. 390·0 |
| Iraq | .. 003·7 |
| Iran | .. 015·0 |
| Japan, including Japanese controlled areas | .. 145 0 |
| Nepal | .. 005·6 |
| Thailand | .. 015·6 |
| Turkey in Asia | .. 016·3 |
| Burma | .. 016·0 |
| Ceylon | .. 005·9 |
| Hong Kong | .. 001·1 |
| Malaya States | .. 004·0 |
| French Indo-China | .. 023·7 |
| Netherlands Indies | .. 069·5 |
| Asian USSR | .. 065·0 |
| Grand Total, including Asian USSR | .. 1,200·0 |

The continent of Asia has thus the distinction of containing the first three of the most populous countries of the world. This, however, is a distinction of doubtful nature; since the pride of Asia has also become its most pressing problem. Its ancient peace-loving peoples who have contributed so much to the permanent values of civilization appear, at least on the present reckoning, to be in danger of being crushed under their own weight.

Judged by modern techniques of production, most of the Asian countries are grossly overpopulated. On a conservative estimate of one per cent. per annum, the net increase in the Asian population during the next few decades will not be less than 12 millions per year. This would include an annual addition of nearly 5 millions in India, another 5 millions in China, 1 million in Japan and another 1 million in the rest of Asia put together. Taking Asia as a whole one careful student suggests that of a probable total population of 3·3 billion people in the year 2000, perhaps 2 billion will be in Asia.³

3. See *Economic Journal*, December 1946, p. 546.

This contrasts greatly with the population of Europe (excluding the USSR) and North America which together comprise over 60 per cent. of the total non-Asian populations of the world. A League of Nations publication generalizes about Europe as follows (which to some extent also applies to North America where the estimated rate of growth is likely to be much smaller than that experienced a few decades ago) :—

The rapid growth of Europe is at an end. Demographically speaking, Europe has reached maturity European populations are now approaching population stability in a rapidly expanding world. At home Europe faces economic and cultural changes made necessary by the end of the population increase and the beginning of an era of stationary, if not actually declining, population. Europe has been geared to a swiftly expanding civilization, one basis of which was a growing population. This element in expansion is now disappearing.⁴

This creates a two-fold problem for the world as a whole. The advanced nations of the world have experienced an enormous increase in their technological capacities for production during the war, and, once the post-war transitional difficulties are over there will practically be no technical limit to the expansion of their production. This output on the other hand cannot be fully absorbed by their declining or stationary domestic populations. The under-developed countries of Asia, with more than half the world population, will on the other hand possess growing markets with, it is hoped, increasing purchasing powers. In the face of these facts, world commercial policy will have to be shaped in a manner suited not only to the interests of the industrialized nations as such but also to those of the backward nations. This aspect of world commercial policy will be discussed in a later section.⁵

BACKWARD AGRICULTURE

The absolute size of the Asian population with its rapid rate of growth becomes a fact of primary importance in Asian

4. *The Future of Population of Europe and the Soviet Union 1944*, p. 69.

5. Chapter II, pp. 29-30, 37-49.

life and is interwoven with every branch of its economics and sociology. The characteristic features of the agriculture of most of the Asian countries are the prevalence of minute holdings of land, abundance of labour supply,⁶ which is virtually unemployed during most of the year, and lack of capital equipment of any sort. A land survey conducted in 1934 in 22 provinces of China showed that nearly 36 per cent. of the farms were less than 1.2 acres in size, 25 per cent. of them varied between 1.2 and 1.5 acres, and only 8 per cent. exceeded 7.5 acres. With the highest density of population per sq. mile in the world, Japan's agriculture, which has been by far the most important of her industries, presents a similar picture. In 1939, 40 per cent. of her farmers cultivated farms of less than 1.5 acres and another 40 per cent. between 1.5 and 3.0 acres. The number of farms exceeding 7.5 acres was negligible. Millions of identical instances could be found in India and other Asian countries where agriculture is predominantly a small-size family farm occupation.

The difficulties of such farming are too familiar to be laboured here. Small size farms do not yield themselves to mechanization; they waste labour and are wholly at the mercy of nature. In most of the Asian countries farming is hardly a business at all. It is a mode of living. The peasant farms the land not because it pays him to do so; but because he has nowhere else to go.

The results of Asian agriculture, in terms of productivity, are therefore deplorably low. Mr. Colin Clark has collected statistics for obtaining internationally comparable data of net output (i.e. exclusive of fertiliser and fodder consumption) of the agricultural and pastoral industries of a number of countries. His conclusions are: 'Per worker engaged, by far the

6. On the basis of census returns, and of estimates for those countries for which no census returns were available, it has been estimated by a League of Nations' enquiry that of the world population in 1938 of over 2,000 millions, nearly 900 millions were gainfully occupied and of these nearly 550 millions were estimated to be in agriculture. Over half of these were to be found in Asia. *Measures of a National or International Character for Raising the Standard of Living*. League of Nations' Economic Committee, 1938, p. 49.

highest outputs are found in New Zealand (2244 International Units), Australia (1524 I.U.), Argentine (1233 I.U.). In Poland production drops to 195 I.U., Japan to 120 and in Russia 88. A comparable estimate for China is about 46 I.U.' In terms of optimum diet (as estimated by Mr. Clark from the requirements laid down by Sir John Boyd Orr) this means that the labour of one male agriculturist in New Zealand is sufficient to supply the defined optimum diet to 44 people, in Australia to 25 people and in Japan to less than 2 people. In China, it does not supply that diet to a single person, that is, to the worker himself, not to mention his dependents. In other words, the bulk of the Chinese population never receives the minimum diet for a full and healthy life. What is true of China is equally true of most of the Asian countries and especially of India, Ceylon and the Middle East.

HANDICRAFTS AND INDUSTRIALIZATION

Another effect of backward agriculture is the continued trend of the past many decades towards urbanization.⁷ Sooner or later, for it is the most reluctant and heart-rending confession of failure, the farmer must recognize that his growing family can no longer be fed on the farm. But where else can it go? It can migrate only to the town—the town which has not been prepared to receive it and the town which is unspeakably ugly and filthy. Born and bred in rural slums, it must swell the city slums and depress the skill and wages of the city worker.

7. That this trend is characteristic of Asia is undeniable. For India, see *Economic Adviser's Statistical Summary of Social and Economic Trends*: During the thirties the number of cities with a population of one hundred thousand and above rose from 35 to 58 and the city population by 7½ millions (p. iii). In Japan, the entire increase of 14 millions in the Japanese population between 1913 and 1935 was to be found in towns and cities of 30,000 or more. See *The Industrialisation of Japan and Manchukuo*, (1940) by E. B. Schumpeter and others (p. 65). For the Middle East where this tendency is almost as strong as in Japan and much stronger than in India, see *The Economic Development of the Middle East* by Alfred Bonne, (Ch. II).

Confronted with this phenomenon, it is but natural that Asia should be so insistent on large-scale industrialization. This is a subject for a separate paper before the Conference and all that need be said here—in a paper on Asia's Trade—is to mention the longing for industrialization as one of the basic and unifying influences in Asian life. It is recognized on all sides that industrialization, by itself, will not appreciably reduce the pressure on the soil. But the basic argument for increased industrialization lies in the fact that productivity per worker is much higher in manufacturing and service industries than in primary industries.⁸ A transfer of population away from agriculture into the manufacturing industries will, therefore, greatly assist in raising the general average income per head. This has happened in all the countries which are now fully industrialized; and Mr. Colin Clark, after a careful review of the growth of output per head in different periods and in different countries, concludes that :

Generally speaking, the main dynamic of economic advance has been the rising income per head in either secondary or tertiary industry, often in both, and the transfer of population away from primary industry.⁹

But the pattern of industrialization in the East must take a form different from that which it assumed in Great Britain,

8. The following for example shows the differences in productivity :
Incomes per head (International Units)

| | | Primary production | Secondary production |
|----------------------|----|-----------------------|-------------------------|
| U.S.A. (1935) | .. | 688 | 1728 |
| Great Britain (1930) | .. | 827 | 1151 |
| France (1930) | .. | 500 | 1373 |
| Sweden (1930) | .. | 278 | 1109 |
| Japan | .. | 146 | 959 |

From *Industrial Development of the Netherlands Indies*, by Peter Sisten, *Institute of Pacific Relations*, 1943, p. 29.

Also, income per occupied person in India in 1931-2 in agriculture was Rs. 124, in industry Rs. 192 and in service industries Rs. 305. Dr. V. K. R. V. Rao's estimates in *The National Income of British India*, 1931-2, 1940, Macmillan & Co.

9. Colin Clark, *Conditions of Economic Progress*, 1940, Macmillan & Co., p. 12.

the U.S.A., Canada, Germany and France where, in the earlier stages, the populations which were rapidly increasing, never actually outpaced their labour requirements. In Asia industrialization must take place with an already excessive population which, in addition, is increasing rapidly industrialization. It must also be fitted in with the handicraft industries which are scattered all over the Asian continent and which have traditionally furnished the rural community with a subsidiary means of income.

These are the factors which explain the oriental attitude of half-respect and half-fear of the industrial civilization of the West. There is something in the scene of large-scale industrialization which while it attracts, as does the shiny skin of the serpent and the glint in its eye, also revolts and repels the Asian onlooker. Will industrialization, in providing something new, which may be good or evil, sweep away whatever in Japan; this is the attitude in India and China and the is good in the old system? he asks. This was the attitude in the Middle East.

This attitude did not fail to escape the notice of Prof. R. H. Tawney who generalizes on China as follows:

What makes modern industry is ultimately not the machine, but the brains which use it, and the institutional framework which enables it to be used. It is a social product which owes as much to the jurist as to the inventor. To regard it as an ingenious contrivance, like a mechanical toy, is *naïve* to the point of absurdity. It is like supposing that, in order to acclimatise Chinese script in the West, it would be sufficient to introduce Chinese brushes and ink.

(But) does she (China) genuinely desire it (modern industry)? Or is her real aim a more subtle one—to use Western technique as an instrument, while resisting domination by the mentality behind it? Only a Chinese can say, and, perhaps, not even he.

Chinese who applaud the triumphs of the machine rarely mean what the West means when it uses the same phrases. The latter hails it as a master, the former accept it as a servant. When they reflect on the weakness of their own country in the face of foreign Powers, they feel like a giant outwitted by a dwarf.¹⁰

10. *Land and Labour in China*, 1937, George Allen and Unwin, p. 131.

Asians admire the devices which have given success to the giant, but deep down in their hearts is the pride of civilization, that is, the value they attach to the ancient handicrafts which have provided not only a subsidiary income to the country-side but also an outlet to its creative faculty and personal pride. Throughout the length and breadth of Asia, handicrafts have played an important part in the economic life of the people and through them have been expressed some of the best arts and cultures. But the impact of industrialization on them has been disastrous. Competition with the shoddier but cheaper machine-made products has virtually ruined them and has made the countryside, economically and socially, infinitely the poorer. And this has happened at a time when the population has been growing without anything like a corresponding increase in agricultural productivity. This has set up a vicious circle, which has been widening throughout the past half century, in which the peasant became poorer, which, in its turn, placed a severe limit on further industrialization. The time has thus come in most of the Asian countries (and especially in China and India) where both agriculture and industry threaten to come to a standstill, with the 'menace' of population growing. This stage probably came a bit earlier in Japan and was overcome by her armament industries and aggressive activities.

Fortunately, most of the Asian countries are fully alive to this aspect of industrialization. Japan has instituted a great deal of legislation and organization to 'marry' her modern industries to her handicrafts; the Chinese Industrial Co-operatives have achieved a great deal since their inception in 1938;¹¹ and in India no less a person than Mahatma Gandhi was personally interested in the promotion of her rural indus-

11. The following for example are the principles for the organization of industrial co-operatives in rural areas; (i) To industrialize (modernise) existing rural handicrafts; (ii) to improve the processing of rural products and by-products; (iii) to increase the farmer's income through the increase of production; (iv) to utilize raw materials and (v) to develop household handicrafts and small industries.—*China Handbook*, 1937-43 Macmillan & Co., New York, 1943.

tries. In the Middle East, in Burma and in Ceylon the problem is also receiving much attention. But, no co-ordinated attempt on a pan-Asian scale for the promotion of Asian handicrafts has yet been made.

AN INTRA-ASIAN HANDICRAFTS CORPORATION

The promotion of national handicrafts must therefore play a large part in Asia's future commercial policies.

In spite of all their continued neglect and present disorganization, handicrafts still offer one of the most fruitful source of foreign income to all the Asian countries. In a very informative article, Mr. Sidney O. Wolcott of the U.S. Bureau of Foreign and Domestic Commerce, estimates that handicraft products accounted for about 11 per cent. of China's total exports during 1935-7.¹² Excluding mineral oils, 15 per cent. of the total exports from Persia in the Persian year 1937-8 were of woollen carpets. The exports of handicrafts products from India, Burma, Iraq and other countries must also be considerable.

In addition to the national measures for the promotion of handicrafts, which have been mentioned earlier, some kind of commercial arrangement must be made on a pan-Asian scale for the development of national foreign trades in handicrafts. At present foreign trade in national handicrafts is completely unorganized. Only a few foreign firms are interested in it and their interest is purely financial. They purchase these handicrafts fourth or fifth hand through a succession of small dealers, middlemen and hired and sweated artisans. To these costs are added the ocean freight and the import duties which, as Mr. Wolcott points out, amount, in the United States, in some cases to over 100 per cent. of the import prices. Even in India which is comparatively a low-tariff country, the import duty on Persian carpets is 42 per cent. Nowhere in the tariff schedules of any country is any concession made for imported handicrafts. As a result, handicrafts, which should be the

12. *Foreign Commerce Weekly*, 5 January 1946, p. 5.

corner stone of Asian prosperity, have fared extremely badly in foreign trade, and the isolated and un-co-ordinated national attempts at their promotion have not been as successful as they might have been.

Some of the products of national handicraft industries may not find a remunerative market in the countries of origin. This may be due to their excessive familiarity to domestic users, due to high prices for the poor and undeveloped internal markets, or due to some other factors particularly applicable to each country. The same products, on the other hand, will surely find wider and more remunerative markets abroad.

It is therefore suggested that an Intra-Asian Handicrafts Corporation should be established in Asia and that it should be charged with the function of evolving commercial arrangements by which products of certified and well-defined handicraft industries will move freely between one nation and another. This Corporation will make arrangements all over Asia to certify and distinguish the products of handicraft industries which should enter intra-Asian trade without any tariff at all. The Corporation will also attempt to have world tariffs on handicrafts reduced or abolished altogether. It is impossible to make any estimate of the loss to national revenues by this reduction or abolition; but it cannot be very great. And, in any case, the loss so suffered will in the long run be made up by the great advantage which increased foreign trade will bring to the rural communities of the whole of Asia.

Increased trade in handicrafts will also serve as a basis of commercial co-operation and international goodwill in the widest sense of the term. The Corporation, with its various national branches, will popularize the handicrafts of one country in another, and, thereby bring the peasants and artisans of one country morally and spiritually closer to those of the other. It will also eliminate middle-men and the so-called 'curio' sellers and help foreign purchasers to distinguish between the false and the genuine article.

To be really effective, the Handicrafts Corporation must ensure that all the raw materials required for the development of handicraft industries also move freely and cheaply

through the channels of foreign trade. The Corporation will also need to establish branches in each country. These branches will provide for the interchange of technical and commercial information on all aspects of handicraft industries and undertake the task of publicising the handicrafts of other countries. Finally, these branches will also issue the necessary certificates which would enable handicrafts to secure tariff concessions and preferences in other countries.

The administrative details regarding the organization, finances and functions of the Corporation need not be discussed here at length. It might however be stated that the Corporation will not require any great capital, as it is not suggested that it should concern itself with details of national policies regarding handicraft industries; nor will the Corporation undertake the commercial functions of buying and selling the handicrafts products. It will however require a number of publicity organizations and a few technically trained and experienced officers to help national governments with advice as to the best methods of promoting national industries and the sales possibilities in foreign markets. For the most part, the Corporation will work in co-operation with the national government agencies dealing with these industries and its primary function will be to achieve co-ordination in the matters of production, cost, sales and marketing. These functions do not necessitate heavy expenses and it should be possible to run the Corporation by small national contributions based on the value of foreign trade in handicraft products or on the value of foreign trade as a whole.

CONCLUSIONS

(i) Asia is not a mere geographical abstraction. There are several influences which impart a basic unity to many of the problems of Asian economics and sociology.

(ii) Broadly speaking, these influences can be grouped under these main heads: (a) a certain similarity of climate and vegetation; (b) a large population which is still expanding at a rapid rate; (c) the abundance of raw materials; (d) the pressing need of every Asian country for indus-

trial and economic development; and (e) the urge of every Asian country to achieve its own freedom.

(iii) The central range of high mountains in the heart of the continent imparts a great variety of climates and physical features to the whole of Asia; and climatic conditions, on the whole, make Asia one of the largest producers of raw materials in universal demand.

(iv) On any computation, Asia contains more than half of the total population of the world. Apart from its absolute numbers, another characteristic is its rapid rate of growth. The populations of Europe and America, on the other hand, are tending to attain a declining or stationary stage. This must affect world commercial policy as a whole and might result in the specialization of industrially developed countries as producers of capital equipment which Asian countries will need in ever increasing quantities in future.

(v) The large populations of Asian countries are almost entirely dependent on agriculture which is carried on as a small-scale family occupation. Handicrafts play an important part in the economic and communal lives of all the Asian countries, because they supplement the meagre income from agriculture and because they provide an outlet for the creative faculties of the people.

(vi) The Asian attitude towards large-scale industrialization of the Western type is one of halting and hesitant admiration. Asia is so insistent on industrialization, because production per head in manufacturing and service industries is very much greater than in primary occupations, such as agriculture, forestry, etc. Increased industrialization therefore offers the best prospect of a rapid increase in national income and higher standards of living.

(vii) But it is recognized on all hands that industrialization by itself will not greatly increase the total volume of employment in the Asian countries. Handicrafts must, therefore, play a large part in the development of Asian countries. Asian handicrafts have been famous all over the world and action must be taken to ensure that they are no longer allowed to be swamped by industrialization.

(viii) Although national policies of almost all the Asian countries have attempted to increase the profitability of national handicraft industries, pan-Asian action for their development must also be taken.

(ix) It is suggested therefore that an Intra-Asian Handicrafts Corporation with branches in all the Asian countries should be established. The Corporation will pool information on national policies, advise the Governments on action to be taken on intra-Asian lines, help and promote intra-Asian trade in genuine handicrafts and consider all aspects of commercial policy relating to foreign or intra-Asian trade in handicrafts. This would have much influence in promoting cultural ties among the Asian countries, eliminating the fraudulent 'curio' trade and bring the peasant of one country nearer to that of another.

(x) The functions, finances and organization of the proposed Corporation will have to be worked out in detail.

CHAPTER II

ASIA'S DEPENDENCE ON RAW MATERIALS

ABUNDANCE OF ASIA'S RAW MATERIALS

Broadly speaking, no country is entirely self-sufficient in the raw materials it requires ; nor has any country a monopoly of any but a very few of the world's raw materials. Nevertheless, there is a wide divergence in the dependence of various countries on imported raw materials. The countries which have been comparatively poor have been somewhat handicapped in their industrial expansion and have envied those who have had a better access to raw materials. Many of the aggressive commercial policies of the past have arisen from a desire to acquire, as cheaply and as exclusively as possible, the essential raw materials required for domestic expansion. This was one of the primary motives in Italy's demand for colonies, Germany's so-called need for *lebensraum* and Japan's aggression in the Far East.

Asia is one of the continents which is extremely well supplied with raw materials, and in respect of some of them she has a virtual monopoly of the world. An indication of the world's raw material resources can be obtained from the League of Nations' *Raw Materials and Foodstuffs* published in 1939 and based on the information available in 1937. On the average of 1925-9, China produced over 67 per cent. of the world's *antimony ore*. In 1937, her share declined to 36·5 per cent. largely because of increased production in Mexico. China and India are both very rich in *bauxite* and extensive developments in bauxite mining have occurred during the war. China and Burma produce practically the whole of world's *tungsten* which is extremely valuable for high speed machine tools, magnets and filament in electric light bulbs. In 1929, India produced about 26 per cent. of the world's *magnesium* and in 1937 nearly 18 per cent. China has also large deposits of magnesium and has always been an export-

ing country. Asia has a virtual monopoly of *tin*. In 1938, Malaya produced about 37 per cent. of the world supply and the Netherlands Indies nearly 21 per cent. Burma and China have also considerable deposits, their production in 1938 being respectively about 3 and 6 per cent. China and India have also abundant supplies of *pig iron* and *iron ore*, although these resources have not yet been fully exploited owing largely to their industrial backwardness.

Burma and the Middle Eastern countries of Iraq and Iran have considerable resources of *petroleum* and allied mineral products. From its birth, the main weight of the mineral oil industry has always been in the Western Hemisphere. Of all the oil produced to date, nearly 78 per cent. has been produced in the United States and the Caribbean basin. But the picture is changing. American consumption of petroleum is rising very rapidly, while the native reserves are being used up. The United States is within sight of having to import petroleum and it is estimated that within a decade the total production of the Western Hemisphere will be barely sufficient for its needs. Middle Eastern output, on the other hand, is rising fast. Of all the oil produced from the birth of the industry to date, the Middle East has provided less than 4 per cent. But of the world's present proven reserves, 42 per cent. is in that area, as against only 46 per cent. in the Americas. The Middle East will soon be by far and away the largest source of supply of oil for export.¹

Asia also holds a virtual monopoly of the *rubber* supply of the world. British Malaya produced 41.0 per cent. of the world supply in 1937 and the Netherlands Indies 33 per cent., the rest being produced in Burma, French Indo-China, Siam and Ceylon. In respect of *cotton* India produced over 14 per cent. of the world crop in 1937 and China about 8 per cent. The other producing countries were the U.S.A. (50 per cent.), the U.S.S.R. (10 per cent.) and Egypt (6 per cent.). India

1. *The Economist*, London, 4 January 1947, p. 1.

produces practically the whole of the world's *jute* crop, just as Japan produces nearly 80 per cent. of the world's *raw silk*. The next important producer of the latter commodity is China.

As regards agricultural products, especially *oil seeds*, *copra*, *tea* and *tobacco*, Asia has either a world monopoly or at least a controlling influence on world supplies.

The following table gives a bird's eye-view of the raw material position of the world as a whole. On a superficial view of the figures it might appear that the bulk of the world's raw materials and resources are concentrated in Europe and America. This would not, however, be completely true. The figures in the following table relate to the average of the years 1936-8. Since then many of Asia's raw materials have been more fully exploited and it is reasonable to argue that Asia's expansion has been relatively greater than the global expansion. Furthermore, these figures do not give any real indication of the *potential resources* of Asia, showing, as they do, only those resources which have been exploited so far. It might also be mentioned that in spite of the population and size of Asia, her share in the total world trade does not exceed 15 per cent. It is to this figure that the resources so far exploited should be related; and it must also be borne in mind that their exploitation is naturally limited by such factors as backward industrialization, undeveloped internal communications, high costs of transport, distance of raw materials from the main industrial and consuming centres, low world demand and low world prices throughout most of the inter-war period and lack of capital and technical assistance.

In spite of these limiting factors, the following indices for Asia do not compare too unfavourably with those of the other continents. In (vegetable) *oils* and *oil materials* Asia definitely wields a controlling world influence; her position in *metals* and *non-metallic minerals* is fairly respectable and in *rubber* she holds a complete monopoly.

Table showing average indices for the years 1936, 1937 and 1938
of World Production of Raw Materials and Foodstuffs
Sub-divided by Continental Groups

(1929=100)

| | | General Index of Raw Materials and Foodstuffs | Agricultural Products | Non-agricultural Products | Raw Materials | Oil Materials and Oils | Textile Fibres | Rubber | Non-metallic Minerals | |
|--------------------------------|----|--|-----------------------|------------------------------|---------------|---------------------------|----------------|--------|-----------------------|-------|
| Europe exclud- ing U.S.S.R. | .. | 34.3 | 35.1 | 31.5 | 25.6 | 15.6 | 15.6 | — | 25.8 | 46.5 |
| U.S.S.R. | .. | 11.2 | 11.6 | 9.8 | 10.2 | 5.8 | 10.1 | — | 14.1 | 8.7 |
| North America | .. | 23.6 | 19.6 | 38.5 | 34.6 | 13.3 | 25.4 | — | 30.4 | 23.3 |
| Latin America | .. | 8.0 | 8.6 | 5.6 | 6.6 | 8.5 | 7.6 | 1.9 | 8.5 | 6.8 |
| Africa | .. | 3.0 | 3.0 | 2.8 | 4.3 | 12.6 | 6.0 | 0.8 | 8.1 | 2.8 |
| Oceania | .. | 2.9 | 3.4 | 1.2 | 2.5 | 0.8 | 6.5 | 0.1 | 2.7 | 0.8 |
| Asia | .. | 17.0 | 18.7 | 10.6 | 16.3 | 43.4 | 28.8 | 97.2 | 10.4 | 11.1 |
| Total | .. | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

NET EXPORT OF RAW MATERIALS

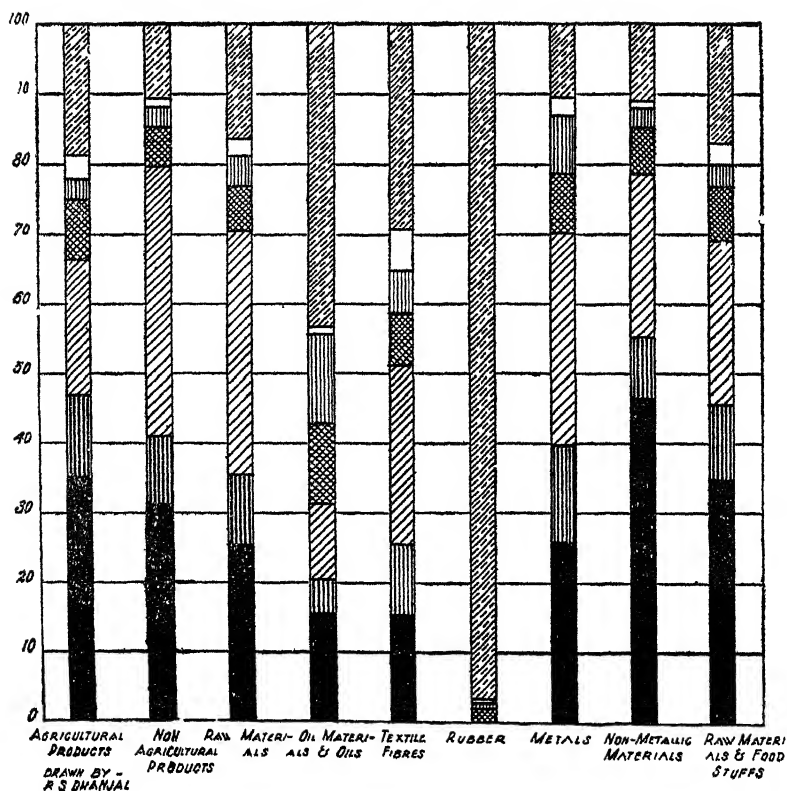
A more useful approach to the consideration of Asia's resources in raw materials would be to estimate the total requirements of the continent and its dependence or otherwise on foreign imports. The table on page 26, compiled from the League of Nations' *The Network of World Trade, 1942*, shows the percentage share of the various groups of Asian countries in the weight of world imports and exports of certain essential raw materials and foodstuffs.

The conclusions which emerge from the table are striking. In the first instance even on the showing of 1938 figures, Asia is on the whole a large *net* exporter of thirteen out of the twenty-one commodities listed in the table. These com-

CHART II WORLD PRODUCTION OF RAW MATERIALS

■ EUROPE EXCLUDING U.S.S.R.
 ▨ U.S.S.R.
 ▩ NORTH AMERICA
 ▧ LATIN AMERICA
 ▦ AFRICA
 □ OCEANIA
 ▤ ASIA

AVERAGE FOR 1936 TO 1938=100



modities were wheat, rice, sugar, tea, oilseeds, raw silk, raw jute, rubber, petrol, gas and fuel oils, manganese ore, tin ore, and unworked tin. Secondly, she was practically self-sufficient in respect of raw cotton and coal. Thirdly, she had to import only six of the twenty-one commodities required for an expanding economy, the more important of which were wheat flour for China, and iron and steel and pig iron for Japan.

Analysed further, the above conclusions would be modified greatly in favour of the three Asian groups of countries, namely, India, Burma and Ceylon; China and Continental Asian countries; and the South-east Asian countries. Taken as a whole, these three groups had a preponderant interest in the exports of all the twenty-one commodities, except wheat flour which China had to import to a large extent.

These figures indicate that all the Asian countries except Japan will in future have similar interests in world commercial policies in respect of their foreign trade in raw materials.

Japan, on the other hand, should she even have control over the territories of Korea and Formosa, will be dependent on imports and may not have exactly identical interests with those of the other Asian countries. In spite of her expanding population, Japan is practically self-sufficient in foodstuffs. She must, however, import large quantities of oilseeds and vegetable oils, raw cotton, jute, rubber, coal petrol, manganese, iron ore, pig iron, iron and steel scrap, copper, lead and tin. In short, the Japanese economy is extremely vulnerable and must *always* depend on large imports of both coal and pig iron. No country can aspire to achieve the full height of industrialization with these primary resources so greatly deficient. This largely explains the aggressive commercial policies of Japan in the inter-war period and her aggressive designs of expansion in the Far East.²

2. See Chapter IV

Asia's Share in the World Trade of Certain Raw Materials
and Foodstuffs in 1938

| Serial No. | Commodity | Imports (I) Exports (E) | Percentage share of Asian countries in the weight of world Imports and Exports of certain products | | | | | |
|------------|---------------------------------|----------------------------------|--|------------------------|-----------------------------|--|----------------------|--|
| | | | India Burma, Ceylon | South- east Asia | Japan, Formosa, Korea | China and Continental Asian Countries | Total for Asia | |
| 1. | Wheat | .. I | 1 | — | — | — | 1 | |
| | | E | 3 | — | — | 1 | 4 | |
| 2. | Wheat Flour | .. I | 2 | 12 | — | 23 | 37 | |
| | | E | 3 | 1 | 13 | 1 | 18 | |
| 3. | Rice | .. I | 27 | 24 | — | 9 | 60 | |
| | | E | 48 | 40 | 1 | 1 | 90 | |
| 4. | Sugar | .. I | 1 | 2 | — | 6 | 9 | |
| | | E | — | 22 | 3 | — | 25 | |
| 5. | Tea | .. I | 1 | 1 | — | 5 | 7 | |
| | | E | 64 | 17 | 7 | 10 | 98 | |
| 6. | Oil-seeds and Vegetable Oils | .. I | 2 | 2 | 3 | — | 7 | |
| | | E | 13 | 29 | — | 10 | 52 | |
| 7. | Raw Silk | .. I | 2 | 1 | 3 | — | 6 | |
| | | E | 1 | — | 78 | 12 | 91 | |
| 8. | Raw Jute | .. I | 1 | — | 3 | 21 | 25 | |
| | | E | 99 | — | — | — | 99 | |
| 9. | Raw Cotton | .. I | 5 | 1 | 21 | 2 | 29 | |
| | | E | 18 | 1 | — | 5 | 24 | |
| 10. | Rubber | .. I | — | 14 | 4 | — | 18 | |
| | | E | 7 | 91 | — | — | 98 | |
| 11. | Coal | .. I | 1 | 2 | 6 | 1 | 10 | |
| | | E | 1 | 2 | 2 | 4 | 9 | |
| 12. | Petrol | .. I | 2 | 4 | 4 | 2 | 12 | |
| | | E | 1 | 15 | — | 12 | 28 | |
| 13. | Gas and Fuel Oil | .. I | 4 | 4 | — | 4 | 12 | |
| | | E | — | 9 | — | 17 | 26 | |
| 14. | Manganese Ore | .. I | — | — | 7 | — | 7 | |
| | | E | 27 | 5 | — | 18 | 50 | |
| 15. | Iron Ore | .. I | — | — | 8 | — | 8 | |
| | | E | 1 | 3 | — | — | 4 | |
| 16. | Pig Iron | .. I | 1 | — | 42 | 1 | 44 | |
| | | E | 20 | — | 5 | 10 | 35 | |
| 17. | Iron and Steel Scrap | .. I | — | — | 35 | — | 35 | |
| | | E | 2 | 1 | — | 2 | 5 | |
| 18. | Copper (Unworked) | .. I | — | — | 7 | — | 7 | |
| | | E | — | — | — | — | — | |
| 19. | Lead (Unworked) | .. I | 1 | 1 | 12 | — | 14 | |
| | | E | 9 | — | — | — | 9 | |
| 20. | Tin Ore | .. I | — | 20 | — | — | 20 | |
| | | E | 2 | 33 | 1 | — | 36 | |
| 21. | Tin Unworked | .. I | 2 | 2 | 4 | 1 | 9 | |
| | | E | 6 | 50 | — | 8 | 64 | |




Percentage sub-division of Imports and Exports
of Asian countries³

| | 1928 Percentage Distribution of Imports and Ex- ports under each group | | 1937 Percentage Distribution of Imports and Ex- ports under each group | |
|--|---|---------|---|---------|
| | Imports | Exports | Imports | Exports |
| <i>India, Burma and Ceylon</i> | | | | |
| (a) Foodstuffs .. | 19 | 25 | 15 | 30 |
| (b) Materials Raw and Partly Manufac- tured .. | 12 | 51 | 20 | 49 |
| (c) Manufactured Articles .. | 69 | 24 | 65 | 21 |
| Total (a) + (b) + (c) .. | 100 | 100 | 100 | 100 |
| <i>South-east Asia</i> | | | | |
| (a) Foodstuffs .. | 24 | 41 | 17 | 25 |
| (b) Materials Raw and Partly Manufac- tured .. | 22 | 54 | 27 | 71 |
| (c) Manufactured Articles .. | 54 | 5 | 56 | 4 |
| Total (a) + (b) + (c) .. | 100 | 100 | 100 | 100 |
| <i>China and other Continental Asian Countries</i> | | | | |
| (a) Foodstuffs .. | 23 | 21 | 14 | 27 |
| (b) Materials Raw and Partly Manufac- tured .. | 22 | 52 | 18 | 55 |
| (c) Manufactured Articles .. | 55 | 27 | 68 | 18 |
| Total (a) + (b) + (c) .. | 100 | 100 | 100 | 100 |
| <i>Japan, Korea and Formosa</i> | | | | |
| (a) Foodstuffs .. | 12 | 9 | 5 | 11 |
| (b) Materials Raw and Partly Manufac- tured .. | 64 | 43 | 74 | 19 |
| (c) Manufactured Articles .. | 24 | 48 | 21 | 70 |
| Total (a) + (b) + (c) .. | 100 | 100 | 100 | 100 |

3. Compiled from *The Network of World Trade, 1942*, published by the League of Nations, Table 7.

CHART III

PERCENTAGE SUB-DIVISION OF IMPORTS & EXPORTS IN 1928 & 1937

-  Food Stuffs
-  Materials Raw or Partly Manufactured
-  Manufactured Articles

IMPORTS EXPORTS

INDIA, BURMA AND CEYLON



SOUTH EAST ASIA



CHINA & OTHER CONTINENTAL ASIAN COUNTRIES



JAPAN, KOREA & FORMOSA



DRAWN BY
R. S. DHANU

The pressure of population, backwardness of industrialization and the abundance of raw materials impart a peculiar feature to the composition of Asia's foreign trade. The exports of most of the Asian countries, during the pre-war period, consisted largely of raw materials and essential foodstuffs. Their imports, on the other hand consisted very largely of manufactured articles of daily use and some machinery and capital equipment for industrial development.⁴

This tendency, as will be seen in the table on page 27, was however completely reversed in the case of Japan. Being deficient in raw materials she had to import them on a large scale from abroad, and being more industrialized than other Asian countries she had to export manufactured articles on an equally large scale. In 1937, 74 per cent. of her *imports* consisted of raw materials and 70 per cent. of her *exports* of manufactured articles. The corresponding figures for China were: 68 per cent. of the *imports* were of manufactured articles and 55 per cent. of the *exports* were in the form of raw materials.

VULNERABILITY OF RAW MATERIALS TO PRICE FLUCTUATIONS

It is thus obvious that Asia has an enormous interest in the evolution and regulation of world policies in respect of raw materials. She will be particularly concerned with policies relating to tea, rubber, jute, sugar, silk, vegetable oils and oilseeds, cotton and rice. She will also be deeply interested in policies concerning such minerals as manganese, tungsten, tin and tin ore, antimony, bauxite, petroleum and mineral oils.

It is well known that raw materials of all kinds, are extremely vulnerable to price fluctuations in times of falling prices. In the first instance, the demand for them contracts even before the full impact of the depression is felt. The normal stocks of raw materials which are generally larger

4. This aspect of Asia's foreign trade is discussed in greater detail in Chapter IV.

than those of manufactured articles always enable an entrepreneur, as a first step in anti-slump policy, to cut down his purchases of raw materials. Secondly, the contraction of manufacturing industries themselves at a later stage reduces demand for raw materials. Coming as it does at a time when stocks have become surplus, this exerts an unduly depressing influence on prices. Thirdly, raw material producers are scattered all over the world and are generally small individual producers. They have in consequence practically no defensive power. The net result is that prices of raw materials fall more rapidly in a slump than those of manufactured articles and *also*, when recovery starts, recover more slowly although the initial recovery in the prices of raw materials may start earlier. In addition, the fall in the prices of raw materials is always greater than in the prices of manufactured articles:—

Movement of Prices in International Trade

(1929=100)

| Year | Foodstuffs | Raw materials ⁵ | Manufactured articles | General price level for prices of all articles |
|------|------------|----------------------------|-----------------------|--|
| 1929 | .. 100 | 100 | 100 | 100 |
| 1930 | .. 84.5 | 82 | 94 | 87.1 |
| 1931 | .. 66.5 | 59 | 78 | 67.7 |
| 1932 | .. 52 | 44 | 63.5 | 52.4 |
| 1933 | .. 45.5 | 40 | 56.5 | 46.7 |
| 1934 | .. 41.5 | 39.5 | 50 | 43.5 |
| 1935 | .. 40.5 | 39 | 48 | 42.4 |
| 1936 | .. 42 | 41.5 | 48 | 43.7 |
| 1937 | .. 45.5 | 47 | 51 | 48.0 |
| 1938 | .. 43 | 42.5 | 50.5 | 45.5 |

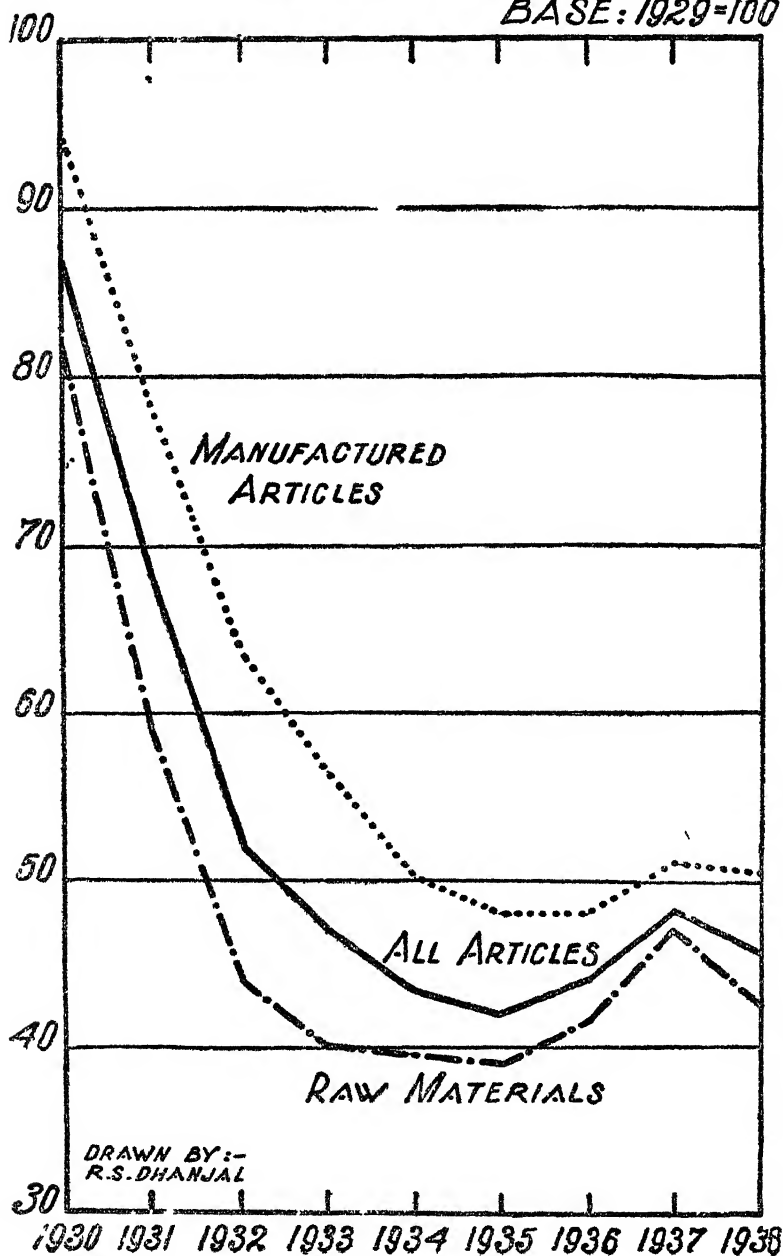
5. Including 'materials, partly manufactured'.

(Compiled from League of Nations *Review of World Trade* 1938, p. 61).

CHART IV

PRICE MOVEMENT

BASE: 1929=100



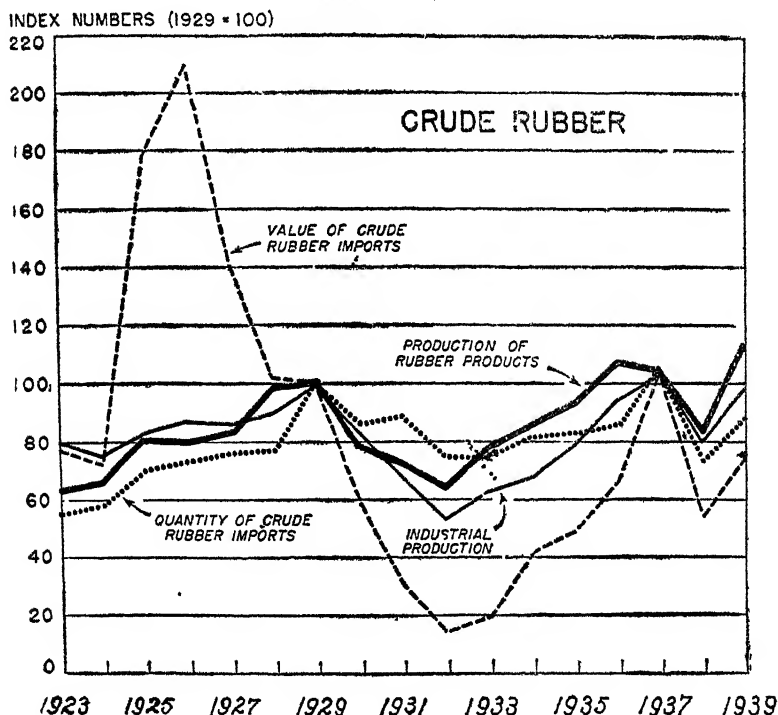
POSITION OF IMPORTED RAW MATERIALS IN THE U.S.A.⁶

The U.S.A. has always been a large consumer of the world's raw materials and well over 80 per cent. of her large imports consist of raw materials. In 1937, 74.2 per cent. of her total imports consisted of producers' goods for further production and 8.4 per cent. of fats, oils and lubricants to be used mainly for further production. The trends of the value and volume of foreign trade in raw materials in the U.S.A. can therefore be taken as representative of the world trends.

Crude Rubber

The following chart, taken from *The United States in the World Economy* published by the U.S. Department of Com-

CHART V



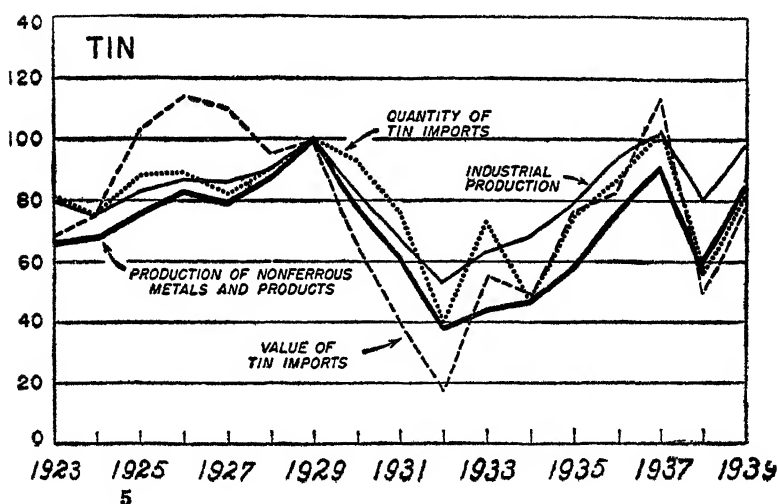
6. The information in this section has been compiled from *The United States in the World Economy*, Published by the U. S. Dept. of Commerce, 1943.

merce, shows that the production of rubber products in the U.S. behaved much in the same manner as the general index of industrial production in the U.S. during the inter-war period, although after the depression rubber production increased in relative importance. Before 1929 the imports of crude rubber were approximately the same as the output of rubber and rubber products, but thereafter the two diverged considerably. In the early thirties low prices induced imports of crude rubber in excess of immediate demand for consumption, with the result that stocks in the United States tripled between 1929 and 1933. Between 1929 and 1937, the index number of physical imports (1929=100) fluctuated round about 80, the index number of the value of imports (1929=100) was well below 40 during half of that period. It fell below 20 in 1931 and 1932.

Tin

The following chart which is also taken from *The United States in the World Economy* shows that the quantity of tin imports into the U.S. fluctuated widely, but that the value of those imports fluctuated still more widely.

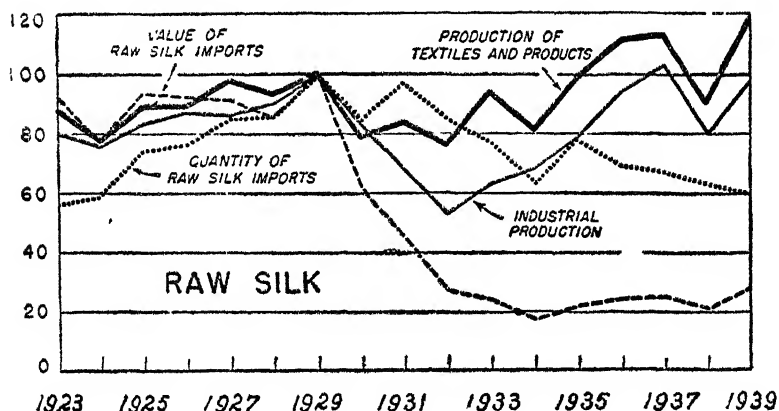
CHART VI



Raw silk

The following chart shows the great fall in the value of raw silk imports in the U.S. during the inter-war period. The rising trend in production of textiles and products during the nineteen-twenties was accompanied by our even sharper increase in silk imports. After 1929, however, silk imports moved downward and failed to recover after the low point of the depression had passed. Relatively to the lowness of imports, the value of these imports fell still further.

CHART VII



NEED TO STABILIZE RAW MATERIAL PRICES

In an attempt to stem the tide of falling prices, a number of international commodity agreements were effected in the nineteen-thirties, in which Asian countries were vitally interested. Among other commodities they related to sugar, tea, rubber and tin. The object of each of these agreements was to limit national output and exports and thereby to prevent a further deterioration in the economic positions of the producing countries. The tea agreement sought to restore 'equilibrium between supply and demand' and the countries concerned, all of them Asian, agreed to fixing export quotas far below the 1929 level of exports. The international tin control scheme intended to 'prevent rapid and severe oscillations of price

and to ensure absorption of surplus stocks, fixed export and production quotas for Malaya and the Netherlands East Indies at 37 and 49 per cent. of the 1929 levels. Rubber producers also subjected themselves to similar control and regulation.

It is difficult to say exactly what part these schemes played in the restoration of stable economic conditions in the countries they were intended to benefit. A League of Nations' Committee on raw materials however found that 'the regulation schemes relating to raw materials now (1937) in operation have, generally speaking, been an important factor in the improvement in the economic conditions experienced in producing countries during the depression, as well as in the development of international trade.'⁷ This does not, however, mean that the economic conditions in raw material producing countries were in any way better than those in industrialized countries. They indeed were much worse and caused much more suffering.

While this was happening, no international attempt was made *on a world basis* to raise the raw material prices by the building up of world stocks or even by making purchases compulsory on behalf of the governments or industrialists of the consuming (or industrialized) countries; and the traditional short-sighted conflict between the advanced and the backward countries assumed its truly destructive form. While Brazil burnt its coffee and India fed its monkeys on its peanut crop, industrialized countries squeezed the Asian markets by pushing exports of their manufactured articles as far as they could and at prices relatively far higher than those which Asian countries received for their own products.

With the disequilibrium¹ between the prices of primary products and manufactured articles, the non-industrialized countries, during the depression of the nineteen-thirties, had to export a relatively greater quantity of primary products in exchange for a *given* quantity of manufactured articles, the barter terms of trade having moved entirely against the raw material producing countries. While these countries were

7. *Report of the Committee on Raw Materials*, 1937, p. 20.

dependent for their domestic economic stability on the exports of their primary products, they were also largely dependent on the imports of machinery, specialized consumer goods like drugs, medicines, textiles, and many other articles. In addition to these 'visible' imports, they had also to make large payments abroad for such 'invisible items' as interest on foreign debts, salaries of foreign staff, and shipping, banking and other charges.

Had the raw-material-producing countries attempted to restrict their imports through quantitative regulations and other restrictive measures, in order to adjust their balance of payments or in order to level up the export prices of their primary products, it is more than probable that the foreign demand for their raw materials would have declined still more. This they had to prevent at all costs, as their economic stability was also almost wholly dependent on the exports of their raw materials.

The effect this has had in retarding the pace of industrialization in Asian countries cannot be exaggerated. In the first instance, lower raw material prices curtailed domestic purchasing powers all round and thus gave a tremendous setback to domestic industries. Secondly, in an unequal and uncontrollable struggle for existence, Asian countries had to maintain their exports, at prices unremunerative even to their own producers and detrimental to their own national stability. In the result, the whole process of international trade moved against the raw-material-producing countries who lost such competitive advantage as they might have possessed when raw materials prices were stable. This disadvantage was cumulative in its effects and during the nineteen-thirties, none of the Asian countries was able to make any progress in industrialization. Many of the former industries and handicrafts were also destroyed during this period.

While this inherent conflict between the advanced and the raw-material-producing countries was at its height, the producers of capital equipment, in which the world has ever been deficient, were making the highest incomes and profits relatively to the other sectors of productive activity. The follow-

ing table⁸ shows the shares of 'capital goods' and 'all other goods' in world trade, as well as the price movement and percentages, for the years 1929, 1932 and 1935.

| | Capital goods | | | Other goods | | |
|---|---------------|------|------|-------------|------|------|
| | 1929 | 1932 | 1935 | 1929 | 1932 | 1935 |
| Percentage shares in the value of world trade | 21.5 | 17.5 | 22 | 78.5 | 82.5 | 78 |
| Movement in gold value | 100 | 31.5 | 34.5 | 100 | 40 | 34 |
| Movement of gold prices | 100 | 59 | 46.5 | 100 | 50.5 | 40 |
| Movement of quantum | 100 | 53 | 74.5 | 100 | 79.5 | 85 |

While, between 1932 and 1935, the gold value of capital goods increased by one-tenth, that of other goods fell by about 15 per cent., and the rise in the quantum of the former group amounted to about 40 per cent. as against only 5 to 10 per cent. for the latter. Yet, owing to the heavy contraction of trade in capital goods during the first depression years, the quantum of trade in such goods, calculated as on 1929 basis, still lagged behind that of other goods. From 1936 onwards, the trade in capital goods continued to increase more rapidly than for other articles.

A PROPOSAL FOR INTRA-ASIAN COMMODITY ORGANIZATION

Fortunately the raw materials problem is comparatively easy during a period of rising or high prices and at present the demand for raw materials is practically unlimited. Many of the restrictive schemes (e.g. tea, rubber, tin) are rapidly disappearing and it is to be hoped that the Asian countries which suffered so severely during the depression and, for other reasons, during the war, will have a long period of prosperity

8. *Review of World Trade*, League of Nations, 1936, p. 16.

during which they can evolve some permanent slump-proof raw material policies. Since raw materials will always play an important part in Asian and intra-Asian trade and since the prosperity of the millions of Asians will ever depend on raw materials, this is a vitally important problem and now is the time to consider Asia's position in the context of the world policies which are being discussed at the various international conferences.

At the same time, it must be recognized that Asian countries, in common with other countries of the world, have incurred, in the interests of expanding world trade, as also in their own interests, certain international obligations towards the liberalization of foreign trade in general, as also in raw materials. The fourth Article of the Atlantic Charter, for instance, pledges all countries to 'endeavour with due respect for their existing obligations to further enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity'. The United Nation's proposals for the expansion of world trade and employment, at present being discussed at a series of world conferences, also impose certain obligations on producing countries in respect of their foreign trade in raw materials and primary products.

For the purposes of this Paper, it is *emphasized* that there is no proposal in it for the creation of any economically exclusive Asian bloc as such. On the other hand, the main suggestion is that Asian countries will continue to adhere to the liberal principles of trade, conducted with peaceful and truly commercial motives, and based upon equality of treatment and fair and equitable practices.

Subject to these qualifications and with due respect to international obligations, it should still be possible for Asian countries to set up an Intra-Asian Commodity Organization for the following objects :

- (a) For the individual Asian countries to strengthen, through consultation, exchange of information,

technical skill, etc., their own economic position, to raise their own living standards and to discuss and remedy mutual difficulties and common disadvantages.

- (b) For the individual Asian countries to promote and increase their foreign trade with each other in raw materials and primary products within the framework of world policies in that respect.
- (c) For the individual Asian countries to increase the produce, exports and consumption of raw materials for their own domestic development, as also the development of Asian countries, without in any way prejudicing the wider world policies which may exist from time to time.

The proposed Intra-Asian Commodity Organization could only achieve these objects and maximize the welfare of the millions of Asians by grouping its economic policies and programmes under the following heads :

- (i) *Maximization of income from foreign trade.*
- (ii) *Utilization, to the greatest extent possible, of the natural advantages which Asian countries enjoy with a view to counter-balancing the disadvantages under which they suffer in the field of industrialization, capital equipment, technical organization, etc.*

MAXIMIZATION OF INCOME FROM RAW MATERIALS TRADE

(i) *Orderly Production*

Obviously the most important step towards the maximization of income from raw materials must lie in the national policies for the orderly development of natural resources, their economical transport and storage and the elimination of all possible waste. There will, however, be a great deal which the Asian countries could learn from each other through exchange of technical information and advice. Their problems

will be similar ; and they can best be solved by co-operative action.⁹

For example, China and India will have a great deal in common in respect of *groundnuts* and *cotton*. Japan and China will both benefit by the co-ordination of policy and effort in respect of *raw silk*. India, China, Ceylon and the Netherlands East Indies will be equally interested in world policies relating to *tea*. Every Asian country will similarly be interested in policies regarding *rice*. The fortunes and economic stability of Malaya, the Netherlands East Indies, Ceylon, Indo-China and Siam will largely depend on the prosperity of their *rubber* plantations. Similarly, Malaya, the Netherlands East Indies and China will be greatly concerned with policies regarding *tin*. Furthermore, practically all the Asian countries (including Japan and the Middle East countries) will have much in common in respect of policies relating to minerals and especially relating to *petroleum products*, *manganese*, *tungsten*, *bauxite* and *antimony* ores. These commodities merely illustrate the range of products in which Asian countries are extremely rich and by the proper development of which they could all benefit.

Such benefit has not, however, accrued to Asia to any great extent so far. As a producer, Asia as a whole has had very little effect on world policies or prices. The centre of all the commodity agreements in which Asia has been interested has always been in Europe where consumers have dominated international policies, often to the detriment of producers. One of the main tasks of the proposed Intra-Asian Commodity Organization would be to bring all the producing Asian countries together for a general discussion of the intra-Asian and Asian policies in respect of raw materials. The same organization would also safeguard consumer interests both in Asia and in the world, and review national

9. There is no doubt that apart from increased and orderly production, the bases of Asia's productive activity must also be greatly diversified. Chapter IV, Pp. 81-6, emphasizes the high specialization of the exports of individual Asian countries and the dangers of such specialization.

policies with a view to bringing them into line with each other and finally making them fit into the pattern of accepted world policies.

(ii) *Processing in countries of production*

One of the long-standing handicaps of all the primary producing countries has been the lack of processing facilities or opportunities in the lands in which the raw materials have been produced. Thus India exports many of her minerals for processing abroad. China has little control over her precious deposits of tungsten and other precious minerals. The Far Eastern Asian countries have always exported most of their rubber and tin to America or Europe in the crudest forms. The development and marketing of the Middle Eastern supplies of petroleum is entirely in the hands of foreigners.

This has had a two-fold effect on the producing countries concerned. In the first instance, they have remained relatively undeveloped despite all their natural advantages, while the processing countries abroad have reaped the bulk of the profits to be derived from the imported raw materials. Secondly, because the producing countries were not also the processing countries, the former have lost all control over world markets and have therefore never been able to establish anything like an effective control or regulation of their own. In short, in spite of all their wealth, producing countries have ever been dependent on processing and consuming countries; and have often paid exorbitant prices for their own processed materials imported from the processing countries.

The demand for the development of processing facilities in the countries of origin has therefore been a long-standing one and every primary producing country has agitated for it at one time or another. After much discussion and a careful estimate of all the difficulties involved, especially from the point of view of importing countries, a League of Nations Committee on raw materials came to the following conclusion:

If the raw materials have to be processed before they can be used for manufacture, it is often natural that they should be processed in

the producing country, provided that the process can be carried out most economically there. In such cases, importing countries cannot reasonably expect the exporting country to place no export duty on the raw material if they themselves place high import duties or even prohibitions on the import of the processed material and thereby adversely affect the processing industry of the producing country.¹⁰

The Asian countries must establish a right to acquire and develop all the possible facilities for the processing of their raw materials. This should follow as a natural corollary to the 'equal-access-to-raw-materials' clause of the Atlantic Charter. The Asian countries must therefore ensure that the processing industries, which are at present located in the industrialized countries of the West, are gradually transferred to the Asian countries where the bulk of the raw material concerned is produced.

China has recently adopted several policies for preventing this drain of income and opportunity from her own borders and has established a National Resources Commission to develop, operate and control her important mining enterprises. For example, tin has been designated as an export mineral and therefore controlled by the government. Over one-seventh of the refined tin is produced by the government and the rest is purchased by the government for export under a government licence. All the processing is done within the country and some of the plants have produced tin with an average metal content of 99·80 per cent. which is even better than the world standard of 99·75 per cent.¹¹ What is true of tin is more or less true of many of the Chinese minerals and the processing facilities provided by the Chinese Government under its Mining Laws have been responsible for setting up a large number of mineral industries in that country and for providing additional employment to its otherwise sadly under-employed population. That Chinese policy has pro-

10. Quoted from *Raw Material Problems and Policies*, League of Nations, 1946, p. 65.

11. *China Handbook*, 1937-1943, p. 489.

duced substantial results¹² in the course of less than a decade is shown by the following figures of trade between China and the U.S.A. :

| | Imports into China of U.S.A. merchandise Percentage of Total | | Exports of Chinese merchandise to U.S.A. Percentage of Total | |
|-------------------------|--|------|--|------|
| | 1929 | 1937 | 1929 | 1937 |
| Crude Materials | 30.0 | 14.7 | 61.6 | 37.7 |
| Crude Foodstuffs | 1.8 | 0.5 | 1.4 | 2.0 |
| Manufactured Foodstuffs | 7.5 | 1.8 | 7.1 | 8.6 |
| Semi-Manufactures | 15.4 | 30.0 | 20.9 | 38.8 |
| Finished Manufactures | 45.3 | 52.3 | 9.1 | 13.0 |
| Total | 100 | 100 | 100 | 100 |

The Government of India is also anxious to ensure that India's natural resources are fully processed before they are exported abroad and the Burmese Government, during the pre-war period, has striven towards the same end. The policy of Japan has also been similar.¹³

Nevertheless organized processing of raw materials and their conversion into a semi-manufactured state in the regions where they originate still remains an important problem and Asian countries must evolve unified policies in that respect. How this can be done must remain a subject of detailed discussion between the countries concerned and in relation to

12. The author is fortified in this conclusion by the finding of Ethel B. Dietrich in her *Far Eastern Trade of United States*, 1940, published by the Institute of Pacific Relations. The table has been compiled from her table on p. 38.

13. For details see: *Second Report on Reconstruction Planning*, Government of India, 1945, Pp. 34-5; *Japan-Manchukuo Year Book* 1939, Pp. 384-6; *China Handbook*, 1937-1943, Macmillan, New York, 1943, Pp. 475-92.

the global policies regarding international trade. But the possible methods of achieving this end would appear to be :

- (a) initial export duties, in a manner internationally approved and in a manner definitely proved to be in the long-term interests of the exporting country, on crude or non-processed raw materials in order to encourage processing at home :

OR

- (b) high import duties and/or tariff preferences for imported processed or semi-manufactured raw materials which can be processed at home ;

OR

- (c) prohibition of imports of processed materials or exports of crude materials where the same materials can be processed or semi-manufactured at home.

In addition to one or more of these measures it might also be possible for the State to take complete control over essential mining enterprises, as in China, and run them purely as State concerns. The State could then be responsible for all the processes up to that of final manufacture and regulation of exports under State licence.

It must also be appreciated that mining machinery and equipment is costly, difficult to operate and requires much skill and talent. This is a field in which Asian countries would require the assistance and co-operation of industrialized countries, especially in view of the acute shortage of all kinds of equipment which is bound to prevail in the next decade or so. If the proposal is worked sympathetically and co-operatively, it should be possible to make definite international arrangements by which each industrialized country which imports Asia's raw materials will, in relation to the value of its imports, undertake to supply the Asian country concerned with the essential processing plant and assistance in fixed instalments. This would be an arrangement which would have

many advantages: (i) it would enable the importing countries gradually to transfer some of their man-power now engaged in processing on to the manufacture of processing machinery with the minimum of labour or other dislocation; (ii) it would enable the exporting country gradually to absorb new equipment and provide domestic technical and training facilities; (iii) it would help international long-term planning of division of labour and natural advantage.

A proposal of this nature could not be worked unless the primary producing countries are fully united and have some unified plans of their own in respect of their own processing industries organized to some extent on a pan-Asian scale. Furthermore, the proposal will need much examination and discussion in the initial stages, and after it has been generally adopted by all the Asian countries, it will need constant review and periodical adjustment to suit changes in world conditions.

These would be some of the primary functions of the Intra-Asian Commodity Organization suggested above.

UTILIZATION OF NATURAL RESOURCES

It is obvious that Asia must take the fullest advantage of the natural resources with which she is so fully endowed. Apart from the maximum domestic utilization of her raw materials for her own industries, she must further ensure that she is also able to meet the increased world demand for them.¹⁴ This can only be achieved by more efficient and scientific production, elimination of waste and improved transport. There is a danger however that the national policies of the various countries might conflict with each other, unless there is a Pan-Asian organization charged with the task of bringing about some co-ordination of national policies and establishing some co-operative effort.

The Asian countries would however expect that in return similar policies are adopted by industrialized countries in respect of the capital equipment in which they, at present,

enjoy certain acquired advantages. For the most important problem of the Asian countries during the next few decades will be the acquisition of all the capital equipment required for their rehabilitation and development.

An adequate supply of capital equipment will also have a great bearing on the future. It has already been mentioned that the populations of many of the industrialized countries are fast approaching stationary, if not declining, levels. This presents a serious problem for the future adaptation of world economy as a whole. With the industrial development of the existing undeveloped countries, the industrialized countries are bound to lose many of their markets sooner or later. This brings both opportunities and dangers to existing industrial areas, but in the words of Prof. Eugene Staley 'it should be definitely possible, by policies of mutual co-operation and intelligent adaptation, to make the advantages far outweigh the disadvantages.' 'The equipping of industrially less advanced areas,' he argues, 'could help to provide a great new frontier to economic expansion. Particularly in the first difficult decade or two after the war, properly organized international co-operation in order to achieve a mutually beneficial *timing* and *direction* of equipment orders for the outfitting of new areas could help to stabilize employment and income in the equipment-supplying countries.'¹⁵ In the absence of organized international co-operation for this purpose, however, the opportunities created by the war would be lost and sooner or later the world would lapse into chaos worse than that experienced during the last depression.

EQUAL ACCESS TO CAPITAL EQUIPMENT

The fourth article of the Atlantic Charter, quoted earlier, lays down the general principle that all producing countries should grant access to their raw materials to all the other countries on equal terms and without discrimination. In the

15. Eugene Staley, *World Economic Development*, I.L.O. Montreal, 1944, p. 22.

past, much discrimination had been practised in respect of certain specialized raw materials or in respect of all of them when they were in global short supply. It is much to be hoped that, in future, scarcity of capital equipment will not result in similar forms of discrimination whether disguised or undisguised, against the importing (or primary producing) countries which are in such desperate need of industrialization.

The Asian countries must therefore all strive *together* to establish a parallel convention to the 'equal access to raw materials' clause of the Atlantic Charter by which the highly industrialized countries are bound to grant equality of access to their capital goods to the backward countries on certain well understood and universally accepted principles.

It is possible that under the stimulus of the present high purchasing power all over the world and shortages of all kinds, a struggle for overseas markets might ensue on the part of the more advanced or industrialized countries, with the consequence that they might not be able to export capital equipment, which they themselves might use up on their domestic expansion, as also the competitive expansion of their export industries. This would in fact amount to perpetuating the inherent conflict between the industrialized and the non-industrialized nations and sowing the seeds of a future slump. The Asian countries must, therefore, be in a position to raise their voice against any undue development of foreign productive capacities likely to endanger not only their legitimate share of the available capital equipment, but also indirectly endanger the competitive powers of their necessarily small and rather undeveloped domestic industries.

Another possibility, which although it might appear to be remote at present, must also be considered in the context of the 'equal access to raw materials' clause. Should the supply of a particular raw material be limited or should demand for it increase for speculative or other reasons beyond the control of the producing country, that country must retain the right to limit or prohibit its exports either for its own domestic use or for preventing undue profits being made on that raw material by foreign countries. A League of Nations

Committee on raw materials has recognized this right and has stated that:

If a country produces only a small quantity of a particular raw material as compared with its requirements, it would not be unreasonable if it felt unable to allow exports.¹⁶

Here then is a field in which Asian countries must first co-operate effectively to be able to deal equally effectively with the industrialized non-Asian countries. They must eliminate uneconomic bidding for capital goods at their own expense; they must decide, in view of the world shortage, which machinery and how much machinery should be bought by each of the countries to meet the more urgent of their priorities; they must maximize *within* the borders of Asia itself the productive technical resources of each nation, so that Asia's competitive dependence on foreign capital equipment is minimized and regulated. This would then ensure an equitable share of the available short supplies for all the Asian countries.

With firm estimates of this kind, Asian countries must be able to bargain as a whole with industrialized countries in the acquisition of capital equipment and other necessary resources required for their economic development.

A move in this direction would also prove beneficial to industrialized countries of the world. It would assist them to undertake the long-range schemes of adaptation which would follow the industrialization of the countries which are at present undeveloped. It would eliminate competitive expansion and restore general confidence if signs of a future slump should occur.

A branch of the proposed Intra-Asian Commodity Corporation must watch this aspect of the question and advise the governments of the various Asian countries regarding commercial policies which would bring them the greatest return in the form of productive equipment for their raw

16. Quoted from *Raw Material Problems and Policies*, League of Nations, 1946, p. 65.

materials. Since the acquisition of capital equipment will largely depend on the adequacy of foreign investments in Asia, the branch dealing with the former will have also to deal with the latter. Chapter IV discusses this Question.

CONCLUSIONS

(i) Asia is well supplied with raw materials and, in respect of many of them, she has a virtual monopoly of the world. She is particularly rich in minerals such as antimony ore, tin, pig iron and iron ore, petroleum and wolfram. She holds a virtual monopoly of world's crude rubber, raw silk, raw jute and tea. And, on the whole, she is a *net* exporter of cotton, oilseeds, copra and tobacco.

(ii) What is true of Asia, as a whole, is not, however, true of Japan as a separate nation. Of all the Asian countries, Japan alone is deficient in most of the essential raw materials and her large-scale industrialization has been based on their imports.

(iii) The exports of all the Asian countries, except Japan, have therefore consisted mainly of raw materials and unmanufactured articles. Manufactured articles, on the other hand, have always constituted the bulk of their imports.

(iv) Asia is, therefore, vitally interested in the evolution and administration of world commercial policies regarding raw materials. The experience of the depression period of the nineteen-thirties showed that raw-material-producing countries are particularly vulnerable to falling prices and suffer greater than industrialized nations.

(v) It is in the interests of Asian countries to continue to make the maximum possible use of their abundant natural resources by utilizing them both for domestic expansion as also the expansion of the industries of the world; but they must also ensure that their interests, as primary producers, are fully safeguarded in the world markets.

(vi) This, it is argued, can best be achieved by some Intra-Asian Commodity Corporation which will help individual countries to expand production, organize foreign trade

and devise means by which raw materials prices are maintained and stabilized at levels likely to be most remunerative to primary producers. The Corporation will not attempt in any way to create any economically exclusive Asian bloc as such. On the other hand, one of its primary objects will be to ensure that Asian countries continue to adhere to the liberal principles of trade based on equality of treatment and fair and equitable practices.

(vii) The Commodity Corporation will also advise individual countries, through exchange of technical information and skill, as to the best means of increasing domestic production and eliminating wasteful methods in exploitation or utilization.

(viii) An important exporting continent in raw materials, Asia has not yet developed the processing industries for her raw materials. The Intra-Asian Commodity Corporation will concern itself with the question of developing as fully and as rapidly as possible Asia's processing industries and will advise individual countries as to the best means of achieving this object. The Asian countries will lose their bargaining strength in the world markets, if the processing industries are allowed to remain abroad.

(ix) An important function of the Corporation will be to advise individual countries as to the best methods of increasing their bargaining strength in world markets, with a view to maximizing their gains from foreign trade.

(x) The Corporation will also attempt to establish a parallel convention to the 'equal access to raw materials' clause of the Atlantic Charter by which highly industrialized countries are bound to grant equality of access to their capital goods to Asian countries, in return for the raw materials which Asia would supply, on certain well-understood and universally accepted principles. The Corporation will establish a special agency for this purpose; and this agency, as will be shown in Chapter IV, will also concern itself with the regulation of foreign investments in Asia in future.

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CHAPTER III

ASIA'S TRADE WITH THE WORLD¹

VOLUME OF ASIA'S TRADE

It is well known that the volume of world trade is very unevenly distributed as between the various countries of the world. Thus, in 1938, goods bought or sold abroad by the industrial countries of continental Europe represented 46 per cent. of the trade of the world, by non-Continental Europe (mainly the United Kingdom) 28 per cent.,

World Imports and Exports of Merchandise in 1938²

Frontier Values in Millions of U.S. Dollars

| Countries | Imports | | Exports | |
|--|---------|-------------------------|---------|-------------------------|
| | Value | Percentage Distribution | Value | Percentage Distribution |
| Africa .. | 1,068 | 4.4 | 1,021 | 4.7 |
| America .. | 4,936 | 20.0 | 5,988 | 27.3 |
| U.S.S.R. .. | 268 | 1.1 | 257 | 1.2 |
| Europe .. | 13,681 | 55.6 | 10,478 | 47.8 |
| Oceania .. | 772 | 3.2 | 776 | 3.5 |
| Japan, Korea, Formosa .. | 798 | 3.3 | 817 | 3.7 |
| China and Con- tinental Asian countries .. | 1,104 | 4.5 | 787 | 3.6 |
| India, Burma, Ceylon .. | 597 | 2.4 | 733 | 3.3 |
| South-east Asia .. | 861 | 3.5 | 1,000 | 4.6 |
| Total World .. | 24,583 | 100.0 | 21,917 | 100.0 |

1. Most of the statistical material in this Chapter has been taken from *The Network of World Trade*, League of Nations, 1942. Special acknowledgements of this fact are not made in the text of the Chapter.

2. Compiled from *The Network of World Trade*, League of Nations 1942, Pp. 17-19.

by the United States 23 per cent., by Japan (including Korea and Formosa) 7 per cent., and by all these countries put together about 89 per cent. Hence, trade among all the remaining areas amounted to only 11 per cent. of the total world trade. The difference in the conditions under which trade is pursued may be further illustrated by the fact that India and China account together for 39 per cent. of world's population but only for 5 per cent. of its trade. The United Kingdom accounts for only 2·2 per cent. of world's population but has a share of about 14·0 in its trade. This is clearly brought out in the table on page 51, which shows the comparatively small share of Asian countries in the world's import and export trade in 1938.

The comparative smallness of the foreign trade of Asian countries is further reflected in the smallness of the value of *per capita* trade of those countries. The following table compiled from *The Foreign Commerce Yearbook*, 1939, of the U.S. Department of Commerce, brings out the relative smallness of the foreign trade per head of the population of most of the Asian countries :

Value of Foreign Trade per head of the Population

Values in Current U.S. Dollars

| Country | Imports | Exports | Total |
|--------------------|-----------|---------|--------|
| Belgium | .. 75·35 | 83·70 | 159·05 |
| Norway | .. 108·65 | 64·25 | 172·90 |
| Switzerland | .. 100·80 | 69·80 | 170·60 |
| <i>Asia</i> | | | |
| Burma | .. 6·10 | 12·75 | 18·85 |
| Ceylon | .. 13·75 | 17·10 | 30·85 |
| China | .. 0·85 | 0·25 | 01·10 |
| India | .. 1·55 | 1·65 | 3·20 |
| French Indo-China | .. 2·60 | 3·85 | 6·45 |
| Japan | .. 10·45 | 12·70 | 23·15 |
| Netherlands Indies | .. 3·90 | 6·15 | 10·05 |

The relative smallness of the trade of Asian countries can be attributed to a number of factors. In the first instance, communications all over Asia are still comparatively undeveloped and marketing presents a great many difficulties. Much of the trade of Asian countries is, therefore, largely localized and is in products which can be easily converted into articles of consumption, e.g., food-grains, textiles, fuel. Secondly, most of the Asian countries subsist on a low standard of living and those who live on subsistence level can neither export any appreciable share of their produce nor can they purchase in any large measure the products of other countries. This explains an important tendency in world trade in that it 'radiates from industrial regions'³ and supplies an important argument for increasing the productivity of non-industrialized countries. Increased productivity would move the wheel of trade at a faster rate than before the war, supply the best inducement for the development of domestic resources and thereby tend to increase world employment at a faster rate. One of the main objectives of Asia's economic policy will be to raise the national levels of productivity and thereby increase the total volume of trade all round.

DIRECTIONS OF TRADE

India, Burma and Ceylon. As a supplier of tropical products, tropical Asia is more important than the tropical regions of Africa and America taken together.⁴ This is largely due to the fact that world trade in individual products is highly concentrated. Thus, India supplied 99 per cent. of the jute entering into world trade in 1938, South-East Asia 91 per cent. of the rubber, 81 per cent. of the coconut oil, 75 per cent. of the copra and 50 per cent. of the tin. Japan supplied in that year over 78 per cent. of the world's silk.

The humid climate in extensive areas of tropical Asia, due to monsoon rains during the summer, explains why the soil

3. *The Network of World Trade*, League of Nations, 1942, p. 7.

4. *Ibid.*, p. 57.

in these regions is so productive and the density of population so high. Climate and labour supply have made tropical Asia the almost unique supplier of various products of world-wide consumption, such as jute, tea, rubber, shellac, silk, etc.

The export trade of India, Burma and Ceylon taken together is more widely distributed than their import trade. Their export products are in universal demand, although the purchasing capacities of the various countries are governed by their own levels of productivity and national income. On the import side, on the other hand, trade during the pre-war period has been of a rather specialized nature, in the sense that the bulk of the imports have been from the United Kingdom and other European countries. This is brought out in the following table :—

Direction of Trade in Merchandise of the India,
Burma and Ceylon Group

| Percentage shares of Imports from and Exports to | Imports | | Exports | |
|--|---------|------|---------|------|
| | 1928 | 1938 | 1928 | 1938 |
| United Kingdom | .. 45 | 36 | 18 | 29 |
| Rest of Europe | .. 18 | 20 | 32 | 25 |
| United States | .. 6 | 8 | 13 | 11 |
| Northern North America and Latin America | .. 1 | — | 5 | 4 |
| Africa | .. 1 | 5 | 4 | 5 |
| Japan, Korea and Formosa | .. 6 | 12 | 9 | 8 |
| Tropical Asia | .. 16 | 12 | 10 | 10 |
| China and other Continental Asian countries | .. 5 | 5 | 5 | 4 |
| Rest of the world | .. 2 | 2 | 4 | 4 |
| Total | .. 100 | 100 | 100 | 100 |

The above table also emphasizes an important change which has been taking place in the foreign trade of India, Burma and Ceylon. Between 1928 and 1938, the United Kingdom's share in the exports of India, Burma and Ceylon rose from 18 per cent. to 29 per cent. while her share in imports fell from 45 per cent. to 36 per cent. in spite of the increased tariff

preferences which were granted to the United Kingdom during the intervening period. In order to bring out the significance of these changes the absolute figures should be con-

| | 1928 | 1938 ⁵ |
|--------------------------------|------|-------------------|
| | mi | mi |
| Exports from India to the U.K. | £470 | 240 |
| Imports from U.K. into India | £760 | 210 |

sidered. During the pre-war years, India imported a great deal more from the U.K. than she exported to that country. But the tendency throughout the inter-war period had been for these large export surpluses

of the United Kingdom with India (valued at about £300 million in 1928) to dwindle with the result that in 1938 India had actually an export surplus with the U.K. to the extent of £30 million.

This change marks the end of a period of heavy export surpluses of the U.K. with India which had begun around 1875. During this period the British export industry had been well suited to supply India with her chief requirements of foreign cotton piece-goods, metal manufactures, machinery and other industrial products, while India, owing to the wide-spread demand for her export products, had export surpluses in trade with continental Europe, the United States and various other parts of the world. India had to utilize these export surpluses not only to finance her net imports from the United Kingdom but also to pay considerable amounts each year to the U.K. for shipping, banking and governmental services rendered and for the excess of the debt service and dividends over new capital imports. For, during the pre-war period, India had been a large debtor country, most of her debt having been held by Britain. Total British investments in India and Ceylon at the end of the twenties were estimated at about £2,500 millions, of which about half represented government bonds.⁶

This change in the trade balance with the U.K. had been going on for a considerable period of time, and, but for the Ottawa concessions granted to Britain it would have been

5. Compiled from the *Network of World Trade*, League of Nations, 1942, Appendix III.

6. *The Network of World Trade*, League of Nations, 1942, p. 59.

much more rapid. The United Kingdom's share in India's imports had been declining since the seventies when it stood at 80 per cent. The figure for 1938 as stated earlier, was about 38.6 per cent. The British cotton industry had lost much ground in the face of Indian and Japanese competition, particularly after World War I, while the United States and continental Europe had become important suppliers, particularly of capital goods. These changes had, however, been slow in comparison with those which occurred during the early thirties. As many countries became unable during the depression to finance their previous import surpluses from India by multi-lateral trade, they strove to increase their sales to India or in the alternative turned to other sources of supply. India, therefore, became incapable of meeting her liabilities to Britain except through the sale of gold, which during the eight years preceding the outbreak of World War II amounted to £1,400 million of the 1934 dollar parity.

POST-WAR POSITION OF INDIA

World War II has entirely changed this picture and these changes cannot but introduce far-reaching changes in India's post-war commercial policy. In the first instance, India has now become a large creditor country, her sterling assets being estimated at over Rs. 1,600 crores or about £1,200 millions. India will not in future be in such desperate need of maintaining a high favourable balance of trade as she had been before the war, nor need she be in such a desperate need of maximizing her exports abroad. Secondly, India's industrial capacity has been much diversified during the war and her productive capacity has also probably increased. India will, therefore, need fewer of the consumer goods she bought from foreign countries before the war and will instead require more capital goods from whichever countries can supply them.

Viewed in this light the guiding principles of India's post-war policy will be the maximization of her foreign trade to the extent consistent with her policy of industrial expansion. This would mean (a) greatest pos-

sible utilization of raw materials for domestic consumption and processing; (b) exportation of such processed raw materials, manufactured articles, etc. as she can spare to foreign markets which prove to be most remunerative; (c) importation of only such consumer goods as she cannot readily produce at home or which are needed to supplement domestic production and (d) above all, importation on a large scale of such capital equipment as she will require for industrial expansion.

POSITION OF INDIVIDUAL COUNTRIES

The following table shows the percentage distribution of the trades of India, Burma and Ceylon separately :—

(Averages of 1938 and 1939)

| Country | Col. I | Imports from countries listed in Column I | | | Exports to countries listed in Column I | | |
|----------------|--------|---|------------|-------------|---|------------|-------------|
| | | Into India | Into Burma | Into Ceylon | From India | From Burma | From Ceylon |
| United Kingdom | .. | 28.3 | 18.0 | 19.7 | 32.9 | 15.0 | 51.8 |
| Burma | .. | 17.2 | — | 15.1 | 6.3 | — | — |
| Ceylon | .. | 0.9 | — | — | 3.1 | 5.0 | — |
| India | .. | — | 51.6 | 21.7 | — | 53.8 | 3.5 |
| U.S.A. | .. | 7.3 | 4.0 | 2.4 | 9.9 | 0.2 | 16.3 |
| Japan | .. | 10.7 | 7.8 | 6.2 | 8.3 | 2.1 | 0.7 |
| Germany | .. | 8.0 | 2.8 | 1.9 | 3.8 | 3.5 | 1.4 |
| France | .. | 0.9 | — | — | 3.5 | — | 1.8 |
| Italy | .. | 1.5 | — | — | 1.0 | — | 1.2 |
| Australia | .. | 1.6 | — | 2.5 | 2.1 | — | 3.7 |
| Others | .. | 23.6 | 15.8 | 30.5 | 29.1 | 20.4 | 19.6 |
| Total | .. | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

It will be noticed from the above table that the United Kingdom takes the major share of the exports of all the three countries. The exports from India to the U.K. in 1938 and 1939 amounted to 32.9 per cent. of all her exports; the U.K. took nearly 52 per cent. of Ceylon's total exports and about 15 per cent. of Burma's total exports. A large producer of rice which is largely consumed in India, nearly 54 per cent. of Burma's total exports went to India.

As exporter of raw materials and foodstuffs (tea mainly), the India, Burma and Ceylon group can be said to have been deeply dependent on the U.K.

On the imports side, the dependence of each of the countries of the India, Burma and Ceylon group on the U.K. was relatively less.

The inter-dependence of each of these three countries is also clearly demonstrated in the above figures. India absorbs 54 per cent. of Burma's exports and supplies nearly 52 per cent. of her imports. Similarly, she supplies 22 per cent. of Ceylon's total imports, although she takes only 3.5 per cent. of Ceylon's total exports.

Before the war, both the import and export trade of all these countries revolved largely round the United Kingdom, the share of all other countries being much smaller.

South-east Asia. The tendency for the export trade to be more widely spread than import trade which was noticed in the case of India, Burma and Ceylon was also in evidence in respect of the South-east Asian trade.

The following table shows the direction of trades of the South-east Asian countries comprising British Malaya, French Indo-China, Netherlands Indies, Philippines and other parts of South-east Asia.

Direction of Trade in Merchandise of
the South-east Asian Group

| Percentage shares of Imports from and Exports to | Imports | | Exports | |
|--|---------|---------|---------|------|
| | 1928 | 1938 | 1928 | 1938 |
| United Kingdom | .. | 12 11 | 5 | 7 |
| Rest of Europe | .. | 21 22 | 18 | 23 |
| United States | .. | 13 17 | 30 | 26 |
| Africa | .. | — — | 1 | 4 |
| Japan, Korea and Formosa | .. | 6 8 | 6 | 6 |
| South-east Asia (intra-trade) | .. | 31 27 | 22 | 21 |
| India, Burma and Ceylon | .. | 6 6 | 6 | 2 |
| China and other Continental Asian countries | .. | 9 6 | 9 | 5 |
| Rest of the World | .. | 2 3 | 3 | 6 |
| Total | .. | 100 100 | 100 | 100 |

The important conclusions which emerge from the above table are :

- (a) Over one-fourth of the total import trade and one-fifth of the export trade of South-east Asian countries is intra-trade, i.e., trade within the group itself.
- (b) Both in respect of import and export trade, the share of the United Kingdom is much less important than that of the U.S.A. The contrary is the case in respect of India, Burma and Ceylon.

The above table can be further sub-divided to show the trade of the four more important countries in South-east Asia, namely, British Malaya, French Indo-China, Netherlands Indies and the Philippines.

Percentage Distribution of the Trade of some
South-east Asian Countries

| Imports from | British Malaya | | French Indo-China | | Netherlands Indies | | Philippines | |
|-------------------|-------------------|---------|----------------------|------|-----------------------|------|-------------|------|
| | 1928 | 1933 | 1928 | 1933 | 1928 | 1933 | 1928 | 1933 |
| United Kingdom | .. | 17* 22' | 2 | 4 | 12 | 8 | 4 | 2 |
| France | .. | 1 1 | 41* | 53* | 1 | 2 | 1 | 1 |
| Netherlands | .. | 1 1 | — | 2 | 20* | 23* | — | 2 |
| Rest of Europe | .. | 4 6 | 3 | 3 | 18 | 18 | 9 | 7 |
| United States | .. | 3 4 | 5 | 5 | 10 | 13 | 65* | 68* |
| <i>Exports to</i> | | | | | | | | |
| United Kingdom | .. | 12* 15* | 3 | 2 | 8 | 5 | 5 | 3 |
| France | .. | 3 8 | 21* | 47* | 4 | 2 | 2 | 2 |
| Netherlands | .. | 4 1 | 1 | 1 | 17* | 20* | 1 | 2 |
| Rest of Europe | .. | 5 7 | 2 | 3 | 8 | 10 | 7 | 4 |
| United States | .. | 42 30 | 3 | 9 | 13 | 14 | 75* | 77* |

*Figures for trade with the respective 'mother countries' are marked with an asterisk.

The above figures are of an extremely revealing nature. All the four countries have what may be called 'colonial

economies' and these economies gravitate round their 'mother countries' in respect of both the import and the export trade. Thus, 53 per cent. of the imports into French Indo-China in 1937 came from France and 47 per cent. of its exports went also to the 'mother country'. Over 68 per cent. of the imports of the Philippines came from the U.S.A. and 77 per cent. of its exports also went to the U.S.A. This applies to a smaller extent to British Malaya and the Netherlands Indies in respect of their own 'mother' countries. This aspect of the problem will be considered in greater detail in a later section on foreign investments in the following chapter.

It will also be noticed that the chief and by far the largest single market for the exports of South-east Asia is the United States.

China. Trading conditions within the group 'China and Other Continental Asian Countries' (which include China, Manchuria, Hong Kong, Macao and other parts of continental Asia) differ to an extent that render the figures for the distribution of the trade of the group as a whole of somewhat restricted value.

The following table, however, shows the percentage distribution of the trade of this group with other countries:

| Percentage share of | Imports | | Exports | |
|--------------------------|---------|------|---------|------|
| | 1928 | 1938 | 1928 | 1938 |
| Japan, Korea and Formosa | .. 28 | 58 | 28 | 45 |
| Hong Kong | .. 19 | 1 | 19 | 16 |
| India, Burma and Ceylon | .. 4 | 3 | 2 | 2 |
| South-east Asia | .. 7 | 6 | 5 | 4 |
| United States | .. 17 | 12 | 13 | 7 |
| United Kingdom | .. 9 | 4 | 6 | 4 |
| Germany | .. 4 | 8 | 2 | 8 |
| Rest of Europe | .. 7 | 5 | 12 | 4 |
| Rest of the World | .. 5 | 3 | 13 | 10 |
| Total | .. 100 | 100 | 100 | 100 |

Reproduced from the League of Nations' *The Network of World Trade*, 1942, p. 63.

The above figures show how the trade of China with Japan increased after 1928 and how by 1938, China was exporting nearly half of all her exports to Japan and receiving about 58 per cent. of her imports from Japan. In spite of her size, population and resources, China's trade with other countries was very undeveloped and even with the U. S. A. her trade was not so great as one might suppose.

Japan, Korea and Formosa. Japan's economy has been undergoing a long process of rapid growth and transition and the geographical distribution of her foreign trade in any particular year cannot be taken as representing her dependence upon foreign markets over a period of time.

The following table, however, shows the changes in the direction of the trade of Japan, Korea and Formosa during the nineteen-thirties :

| Percentage shares of Imports from and Exports to | Imports | | | Exports | | |
|--|---------|------|------|---------|------|------|
| | 1928 | 1935 | 1938 | 1928 | 1935 | 1938 |
| China (including Manchuria and Hong Kong) .. | 21 | 16 | 24 | 28 | 27 | 46 |
| India, Burma and Ceylon .. | 13 | 12 | 8 | 7 | 11 | 7 |
| South-east Asia .. | 9 | 8 | 9 | 6 | 11 | 7 |
| United States .. | 28* | 32* | 34* | 42 | 22* | 16* |
| United Kingdom .. | 7 | 3 | 2 | 3 | 5 | 5 |
| Rest of Europe .. | 10 | 11 | 11 | 5 | 5 | 5 |
| Rest of the World .. | 12 | 18 | 12 | 9 | 19 | 14 |
| Total .. | 100 | 100 | 100 | 100 | 100 | 100 |

Reproduced from League of Nations' *The Network of World Trade*, 1942.

*Well over a third of the imports from the U.S.A. consisted of raw cotton and more than 50 per cent. of the exports to the U.S.A. consisted of raw silk.

One of the outstanding features of Japan's trade has been its detachment from Europe. In 1938 the share of that continent in her imports was 13 per cent. and in her exports 10 per cent. which was well below Europe's share in the trade of any other country of importance. With her rise as an industrial power, Japan had become competitive with Europe in her trade, rather than complementary to that continent. If raw cotton and raw silk were excluded, the same would hold true of the U.S.A. also.

The second noteworthy feature of these figures lies in the fact that the value of Japan's imports from the U.S.A. increased throughout the nineteen-thirties and the value of her exports to that country declined progressively. The main article of import into Japan from the U.S.A. was raw cotton and the main article of export was raw silk. During the depression the prices of raw silk decreased much more than those of raw cotton. The share of raw silk in the exports of Japan proper fell from 37 per cent. in 1928 to 15.4 per cent. in 1935 and 13.5 per cent. in 1938, with a corresponding large decrease in the share of exports to the U.S.A. Imports from the United States, on the other hand, (from which Japan obtained the greater part of her raw cotton and increasing quantities of iron scrap, copper and mineral oil required for her armament industries) rose from 28 per cent. in 1928 to 32 per cent. in 1935 and 34 per cent. in 1938. These opposite movements completely reversed Japan's balance of trade with the U.S.A. In 1928 there had been an excess of exports to that country of \$90 million; in 1938 there was an excess of imports of \$140 million.

Japan was thus compelled to seek new markets in the Far East and this she sought to achieve by various trade devices, including depreciation of her own currency.

Thirdly, the above table shows that Japan's exports to China increased from 28 per cent. in 1928 to 46 per cent. in 1938. This was largely the result of Japan's export drive and the depreciation of the yen to about a third of its previous gold value. The Japanese system of exchange control and the depreciation of the yen so completely segregated the 'yen

bloc' from the rest of the world as to provide an almost monopolized market for Japanese products.

The above table shows that Europe and the United States together accounted for about 37 per cent. of the imports and 33 per cent. of the exports in 1928. Comparison with the figures for 1938 shows how Japan, after occupying China's principal ports, squeezed out several of her main competitors, particularly the United States and the United Kingdom.

It will also be noticed from a previous table showing the direction of China's trade that China's import and export trade with the Asian countries excluding Japan has always been very small. In 1938, 38 per cent. of China's imports came from Japan and 45 per cent. of her exports went to that country.

CONCLUSIONS

A. *Asia's Share of World Trade:*

(i) World trade is very unevenly distributed as between the various countries of the world and the share of Asia in world trade has always been very small. In 1938, Asia's share of the total world imports did not exceed 14 per cent. and her share in the total world exports was about 15 per cent.

(ii) With their large populations, the smallness of these shares was reflected in the smallness of the *per capita* values of the foreign trades of all the Asian countries. The value of the foreign trade per head of the Chinese population, in 1938, was 1.10 U.S. Dollar, of the Indian population 3.20 U.S. Dollars and of the Japanese population 23.15 U.S. Dollars. These figures compared with 172.90 U.S. Dollars for Norway and 170.60 U.S. Dollars for Switzerland in the same year.

(iii) It follows therefore that the value of world trade can be increased considerably by the development of Asia's foreign trade. This can be achieved by an all-round increase in the domestic production of each of the Asian countries and by an increase in the capacity of the Asian people to consume (as also to produce) more than they have done hitherto.

(iv) Since the expansion of world trade must result in the expansion of world employment, the promotion of Asia's

foreign trade becomes one of the primary objectives of the commercial policy of the world as a whole.

B. Direction of Asia's Foreign Trade

(v) One of the main causes of the present state of Asia's undeveloped foreign trade is to be found in the excessive dependence of her foreign trade on raw materials. In the result, the trade of the various Asian countries has become highly specialized. This aspect of the problem will be discussed in greater detail in the next chapters; but it may be noted here that this specialization has made the export trades of the Asian countries highly competitive. The highly competitive nature of this trade has also resulted in the excessive attachment of Asian countries to some industrialized and non-Asian country or the other.

(vi) The intra-Asian trade as such has at the same time remained practically undeveloped and such trade as has existed among them has mostly consisted of rice and cotton piece-goods.⁷

C. India, Burma and Ceylon

(vii) Taken as a group, it is clear that the export trade of India, Burma and Ceylon is much more widely distributed than the import trade of this group. India's jute, Ceylon's tea and, to some extent, Burma's rice are the commodities which are in universal demand.

(viii) In respect both of imports and exports, Europe (and particularly the U.K.) is by far the most important trading continent for this group as a whole. About 56 per cent. of the imports in 1938 (and 63 per cent. in 1928) came from Europe and 54 per cent. of the exports in 1938 were sent to that continent.

(ix) India had to maintain a large export surplus before the war in order to meet her considerable debt obligations in Britain. India has now become a creditor country and this change will greatly alter her post-war commercial position.

7. See below Chapter IV, p. 79-82.

(x) If the directions of the trades of India, Burma and Ceylon are considered separately, India's dominating position in this group becomes clear. She absorbs 54 per cent. of Burma's total exports and supplies nearly 52 per cent. of her total imports. Similarly, she supplies nearly a quarter of Ceylon's total imports.

(xi) Ceylon's great dependence on the U.K. also becomes clear and is accounted for by the fact that the U.K. is a large consumer of tea.

D. South-east Asia

(xii) The bulk of the trade of the South-east Asian countries, which are largely 'colonial' and industrially undeveloped, is with their respective 'mother countries'.

(xiii) The trade of this group with the U.K. is considerable, but that with the 'rest of Europe' is still greater. The trade of the India, Burma and Ceylon group with the U.S.A. is comparatively small, but the trade of the South-east Asia group with the U.S.A. is much larger.

(xiv) The internal trade between the four countries comprising this group appears to be very large; but most of that trade is in rice and the importance of rice in intra-Asian trade will be discussed in the next chapter.

E. China and other Continental Asian Countries

(xv) The main feature of the trade of this group is its virtual detachment from the U.K. The bulk of the trade of this group is with the 'yen bloc' countries, and especially with Japan.

F. Japan

(xvi) The trade with Europe is very small and is more competitive than complementary.

(xvii) The trade with the U.S.A. has also been declining. In the result, Japan's trade is confined very largely to Asia and especially China and the South-east Asian countries.

CHAPTER IV

INTRA-ASIAN TRADE

The preceding chapter which revealed the smallness of Asia's share in world trade has also emphasized how the trades of the various Asian countries tend to revolve round those of the industrialized countries of Europe and America. This chapter will now analyse the main features of intra-Asian trade.

VOLUME OF INTRA-ASIAN TRADE

The following table compiled from *The Network of World Trade*¹ shows the direction of the imports and exports of the merchandise trade of Asia as a whole in 1928 and 1938. The values in this table represent 'frontier value' which have been

Volume of Asian and Intra-Asian Trade

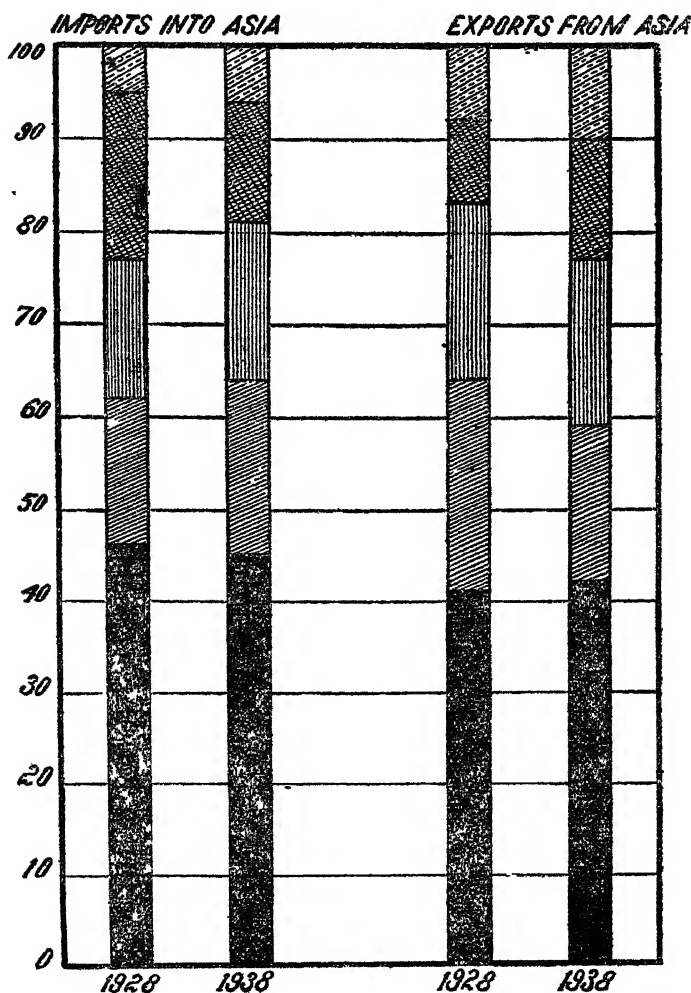
| Column I | Imports into Asia from countries in Column I | | | | Exports of Asia to countries in Column I | | | |
|---------------|---|---------------------|--------------------------------------|---------------------|---|---------------------|--------------------------------------|---------------------|
| | 1928 | | 1938 | | 1928 | | 1938 | |
| | Value in Millions of U.S. Dollars | Percentage of Total | Value in Millions of U.S. Dollars | Percentage of Total | Value in Millions of U.S. Dollars | Percentage of Total | Value in Millions of U.S. Dollars | Percentage of Total |
| Africa | 80 | 1 | 60 | 2 | 60 | 3 | 50 | 5 |
| North | | | | | | | | |
| America | 1,320 | 16 | 630 | 19 | 1,210 | 23 | 530 | 17 |
| Latin America | 10 | — | 30 | 1 | 10 | 1 | 30 | 1 |
| Asia | 3,770 | 46 | 1,520 | 45 | 3,470 | 41 | 1,410 | 42 |
| U.S.S.R. | 120 | 2 | 20 | 1 | 130 | 2 | 40 | 1 |
| Continental | | | | | | | | |
| Europe | 1,260 | 15 | 590 | 17 | 1,100 | 19 | 530 | 18 |
| Non-Con- | | | | | | | | |
| tinental | | | | | | | | |
| Europe | 1,440 | 18 | 430 | 13 | 1,340 | 9 | 380 | 13 |
| Oceania | 190 | 2 | 80 | 2 | 190 | 2 | 70 | 3 |
| Total | 8,190 | 100 | 3,360 | 100 | 7,510 | 100 | 3,040 | 100 |

1. Compiled from the League of Nations' *The Network of World Trade*, tables 16, 17 and 19.

CHART VIII

PERCENTAGE DISTRIBUTION OF ASIA'S IMPORTS & EXPORTS

- ASIA
- ▨ NORTH AMERICA
- ▤ CONTINENTAL EUROPE (Excl'd. U.S.S.R.)
- ▧ NON-CONTINENTAL EUROPE MOSTLY IN THE U.K.
- ▩ REST OF THE WORLD



DRAWN BY:-
R S DHANJAL

adjusted in that publication for freights and other incidental charges. The figures have also been corrected to show the imports by origin and the exports by regions of final consumption.

The above figures show that nearly 46 per cent. of Asia's import and 41 per cent. of her export trade is intra-Asian. The figures also show that taking Asia as one unit about 30 per cent. of the import and export trade is with Europe and about 17 to 19 per cent. with North America. Asia's imports from and exports to Oceania, Africa, South America and the U.S.S.R. taken together are, on the other hand, extremely small. Only 6 per cent. of her total imports in 1938 came from these countries and only 10 per cent. of the exports were consigned to them.

The smallness of Asia's trade with the non-American and non-European countries again emphasizes the backwardness of Asia's foreign trade. In the first instance, this smallness shows the specialized nature of Asia's foreign trade. Her import needs can only be satisfied by industrialized countries and her exports of raw materials can also be absorbed only by them. This kind of specialization makes the Asian countries excessively attached to one or the other of the industrialized European countries and in times of commercial and economic stress, this attachment results in restrictive trade practices which tend to reduce the volume of world trade and to accelerate the distintegration of world trade into rival and mutually exclusive groups.

With this broad generalization in view, the large volume of intra-Asian trade requires some explanation. During the pre-war period, about 46 per cent. of the total imports into the continent of Asia were from the Asian countries themselves; and over 41 per cent. of the total Asian exports were also consigned to them. If Asia's foreign trade is so specialized as to be highly competitive as amongst the Asian countries themselves, and, if it is so excessively attached to non-Asian industrialized countries as to be mutually exclusive, how is it that so much of Asia's total foreign trade is also intra-Asian?

The following table compiled from Annexe III of *The Network of World Trade* furnishes some of the explanation:

Direction of Asia's Import and Export Trade with Asian Countries

| Column I | Imports into Asia from Asian countries listed in Column I | | | | Exports from Asia to Asian countries listed in Column I | | | |
|---|---|---------------------|-----------------------------------|---------------------|---|---------------------|-----------------------------------|---------------------|
| | 1935 | | 1938 | | 1935 | | 1938 | |
| | Value in Millions of U.S. Dollars | Percentage of Total | Value in Millions of U.S. Dollars | Percentage of Total | Value in Millions of U.S. Dollars | Percentage of Total | Value in Millions of U.S. Dollars | Percentage of Total |
| India and Burma | 151 | 10.8 | 128 | 8.4 | 168 | 13.7 | 159 | 11.1 |
| Ceylon | 54 | 3.8 | 53 | 3.5 | 8 | 0.7 | 6 | 0.4 |
| British Malaya | 197 | 14.2 | 211 | 13.8 | 86 | 7.0 | 90 | 6.3 |
| French Indo-China | 22 | 1.5 | 17 | 1.1 | 45 | 3.7 | 23 | 1.6 |
| Netherlands Indies | 96 | 6.9 | 87 | 5.7 | 115 | 9.4 | 128 | 9.0 |
| Philippines | 20 | 1.4 | 22 | 1.4 | 8 | 0.7 | 11 | 0.8 |
| Siam | 37 | 2.6 | 37 | 2.4 | 57 | 4.6 | 65 | 4.5 |
| Rest of South-East Asia | 12 | 0.8 | 17 | 1.1 | 14 | 1.1 | 20 | 1.4 |
| Japan, Korea and Formosa | 286 | 20.6 | 327 | 21.4 | 395 | 32.2 | 521 | 36.4 |
| China excluding Manchuria | 137 | 9.8 | 114 | 7.5 | 90 | 7.3 | 93 | 6.5 |
| Manchuria | 148 | 11.4 | 295 | 19.3 | 69 | 5.6 | 120 | 8.4 |
| Hong Kong | 139 | 10.0 | 135 | 8.8 | 114 | 9.3 | 121 | 8.4 |
| Rest of Continental Asia including Middle East | 87 | 6.2 | 87 | 5.7 | 58 | 4.7 | 75 | 5.2 |
| Total Imports into and Exports from Asia from Asian countries | 1,386 | 100.0 | 1,530 | 100.0 | 1,227 | 100.0 | 1,432 | 100.0 |

The above table, unlike the preceding table, is not adjusted for frontier values and is based largely on the published trade returns of the various countries. It does, however, emphasize the dominating position of Japan in intra-Asian trade. A large industrialized country which she was, Japan imported a great deal of her raw materials from Asian countries. Of the total imports into Asia from the Asian countries, Japan accounted for 21 per cent. of the intra-Asian import trade. She imported a great deal of cotton from India and many of her minerals and mineral oils also came from the Asian countries.

While Japan herself was a large importer from Asian countries, the Asian countries in their own turn were greatly dependent on Japan for their cotton textiles and cheaper consumer goods. The imports of the Asian countries of China, Manchuria and Hong Kong taken together accounted for nearly 36 per cent. of intra-Asian import trade in 1938. These countries were importing largely from Japan and their imports were largely of cotton cloth. British Malaya which is a large importer of both cloth and rice accounted for nearly 14 per cent. of the total intra-Asian import trade; and India and Burma who accounted for about 9 per cent. of intra-Asian import trade were mutually dependent on each other for rice and cloth.

On the export side, the dominant position of Japan in intra-Asian trade was noticeable to an even greater extent. Of the total intra-Asian export trade, Japan accounted for 32.2 per cent. in 1935 and 36.4 per cent. in 1938. Her exports were mainly of cloth and were distributed all over the Asian countries. India and Burma as a group accounted for about 11 to 14 per cent. of intra-Asian trade before the war. India was a large exporter of cotton to Japan and her jute bags were used by all the Asian countries, and especially those who were exporters of rice. The rice exporting countries of Siam and French Indo-China accounted for another 6 per cent. of the intra-Asian export trade.

INTRA-ASIAN IMPORT TRADE BY GROUPS OF ASIAN COUNTRIES

The sub-division of the volume of intra-Asian import trade according to the groups of Asian countries throws a further light on the figures in the preceding table. The table on p. 72 compiled from Table 22 of *The Network of World Trade* shows the proportions of the import trades of the various groups of Asian countries from other groups of Asian countries and the rest of the world. The figures in the table have been adjusted by the League of Nations to represent 'frontier values' and to show the origin of imports:—

India, Burma & Ceylon. The inter-group import trade of India, Burma and Ceylon accounted for about 7 per cent of the total import trade of this group. In the earlier chapter,² the dominating position of India in this group has been explained. India imported a great deal of Burma's rice and both Burma and Ceylon imported India's cotton textiles and other manufactured articles.

The imports of this group from the South-east Asian group were about 5 to 7 per cent. of the total imports and consisted mainly of rice.

The imports from Japan, Korea and Formosa consisted mostly of cotton cloth and some raw silk from Japan and accounted for 15·3 per cent. of the total imports in 1935 and 11·7 per cent. in 1938. All the countries of this group have always had a large trade with Japan. On the average of 1936-38, about 6·5 per cent. of Ceylon's total imports came from Japan and about 10 to 14 per cent. of India's imports also came from that country.

2. Chapter III, Pp.

Direction of the Imports of Asian Countries to other Asian Countries and the Rest of the World

(Values are in Millions of U.S. Dollars. Figures in brackets show the percentage to total world Exports of each group)

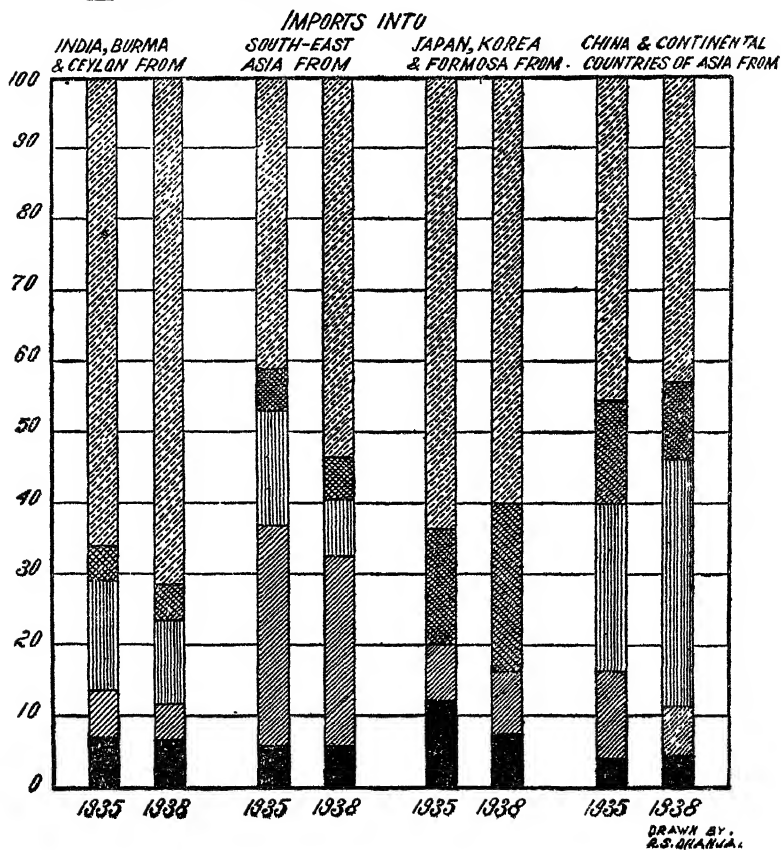
| Column 1 Imports into the following countries | Sources of Imports into countries in Column 1 | | | | | | | |
|--|---|---------------------|--------------------------|---------------------|-------------------------------------|---------------------|--|---------------------|
| | From India, Burma and Ceylon | | From South- East Asia | | From Japan, Korea and Formosa | | China and other Conti- nental Asian Countries | |
| | 1935 Values % | 1938 Values % | 1935 Values % | 1938 Values % | 1935 Values % | 1938 Values % | 1935 Values % | 1938 Values % |
| India, Burma and Ceylon | 40* (6.8) | 40* (6.7) | 40 (6.8) | 30 (5.0) | 90 (15.3) | 70 (11.7) | 30 (5.1) | 30 (5.0) |
| South-East Asia | 40 (5.9) | 50 (5.8) | 210* (30.9) | 230* (26.7) | 110 (16.2) | 70 (8.1) | 40 (5.9) | 50 (5.8) |
| Japan, Korea and Formosa | 90 (12.2) | 60 (7.5) | 60 (8.1) | 70 (8.8) | — | — | 120 (16.2) | 190 (23.8) |
| China and Conti- nental Countries of Asia | 40 (4.1) | 50 (4.5) | 110 (11.3) | 80 (7.3) | 240 (24.7) | 380 (34.5) | 140* (14.4) | 120* (10.9) |
| | | | | | | | 440 (45.4) | 470 (42.8) |
| | | | | | | | 680 (100.0) | 800 (100.0) |
| | | | | | | | 590 (100.0) | 600 (100.0) |
| | | | | | | | 740 (100.0) | 800 (100.0) |
| | | | | | | | 970 (100.0) | 1,100 (100.0) |

*The figures marked with an asterisk represent the trade within the group itself.

CHART IX

IMPORTS OF ASIAN COUNTRIES FROM OTHER ASIAN COUNTRIES & THE REST OF THE WORLD

- INDIA, BURMA & CEYLON
- SOUTH-EAST ASIA
- JAPAN, KOREA & FORMOSA
- CHINA & OTHER CONTINENTAL COUNTRIES OF ASIA
- REST OF THE WORLD



But taken as a group, nearly 66 to 70 per cent. of the import trade of India, Burma and Ceylon was with non-Asian countries.

South-east Asia. The South-east Asian group comprising British Malaya, French Indo-China, Netherlands Indies, Philippines, Siam and other smaller countries has a large inter-group trade within itself. Nearly 27 to 31 per cent. of the total imports into this group during the pre-war period were from the South-east Asian countries themselves. One of the explanations for this large inter-group trade is certainly geographical. These countries are more or less contiguous and much of this inter-group trade can be regarded as internal trade of this geographical region. Secondly, all the South-east Asian countries are still undeveloped and find it more profitable to trade among themselves. Thirdly and the more important of all, is the position which rice occupies in the export and import trades of these countries. The staple food of all these countries is rice, although some of them are highly deficient in that cereal while the others have large surpluses. The following figures, for instance, show the importance of rice; and the large inter-group trade is largely accounted for by this commodity.

Figures are in 000's of Long Tons and
Averages of 1937, 1938 and 1939

| Rice | | Imports of Rice | |
|--------------------|------------------|-----------------|------------------|
| | Domestic Exports | Gross Imports | Retained Imports |
| Indo-China | .. 1,248 | | |
| Siam | .. 1,303 | | |
| Netherlands Indies | .. 23 | | 288 |
| Malaya | | 798 | 641 |
| Philippines | | | 54 |
| British Borneo | | | 54 |

The imports into the South-east Asia group from the India, Burma and Ceylon group have always been small, which is also true of the China group. It is also remarkable how little the South-east Asia group imports from Japan as compared with the Japanese imports of other Asian groups. The relative poverty of the people makes their capacity for absorbing imported goods rather small and in addition, the trade of these colonial countries is more developed with their 'mother countries' than with their Asian neighbours.

Japan. About 40 per cent. of Japan's total imports come from the Asian countries while about 60 per cent. of them come from the rest of the world. Considering that Japan is not a large importer of food and must import the higher qualities of cotton, and semi-manufactured fuel and metals from abroad, it is not surprising that the larger proportion of her imports should come from non-Asian countries. Assuming that Japan resumes her former importance as an industrialized nation of the East, there is no doubt that she would in future absorb a relatively larger proportion of Asian raw-materials than she has done hitherto.

China and other Continental Asian Countries. This group which comprises China, Manchuria, Hong Kong and the Middle East Countries is a larger importer of Asian goods than any other group of Asian countries. The explanation lies in the fact that China's trade was closely linked up with that of Japan in the nineteen-thirties and that the Middle East countries which were large importers of cereals, sugar and cotton textiles were also largely dependent for their requirements on Java, Japan and India.

Intra-Asian Export Trade by Groups. The following table compiled from *The Network of World Trade* shows the exports of the various groups of Asian countries to the other groups of Asian countries and to the rest of the world. The figures in the table have been adjusted by the League of Nations to represent 'frontier values' and the direction is so adjusted as to show the regions of consumption.

Direction of the Exports of Asian Countries from other Asian Countries and the Rest of the World
(Values are in Millions of U.S. Dollars. Figures in brackets show the percentage to total world Imports of each group)

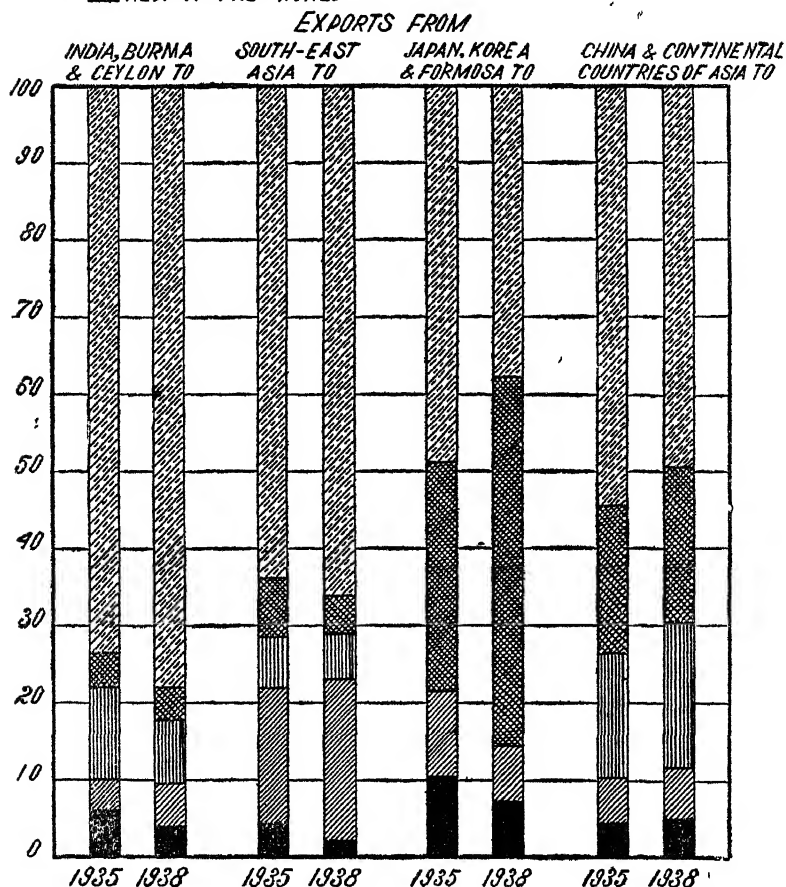
| Column 1 Exports from the following countries | Exports of Countries in Column 1 to these countries | | | | | | | | | | | |
|--|---|---------------------|----------------|-----------------------|---------------------|---------------|-----------------------------------|---------------------|---------------|--|---------------------|----------------|
| | To India, Burma and Ceylon | | | To South-east Asia | | | To Japan, Formosa and Korea | | | To China and other Continental Countries of Asia | | |
| | 1935 Values % | 1938 Values % | % | 1935 Values % | 1938 Values % | % | 1935 Values % | 1938 Values % | % | 1935 Values % | 1938 Values % | % |
| India, Burma and Ceylon | 40* (5.9) | 30* (4.1) | 30 | 40 (5.5) | 60 (11.8) | 80 | 60 (8.2) | 30 (4.4) | 30 | 500 (73.5) | 570 (78.1) | 730 (100.0) |
| South-East Asia | 40 (4.4) | 20 (2.0) | 160* (17.6) | 210* (21.0) | 60 (6.6) | 60 | 60 (6.0) | 70 (7.7) | 50 (5.0) | 580 (63.7) | 660 (66.0) | 910 (100.0) |
| Japan, Korea and Formosa | 80 (10.8) | 60 (7.3) | 80 (10.8) | 60 (7.3) | — | — | — | 220 (29.7) | 390 (47.6) | 360 (48.6) | 310 (37.8) | 820 (100.0) |
| China and Conti- nental Countries of Asia | 30 (4.4) | 40 (5.1) | 40 (5.9) | 50 (6.3) | 110 (16.2) | 150 (19.0) | 130* (19.1) | 160* (20.3) | 370 (54.4) | 390 (49.4) | 680 (100.0) | 790 (100.0) |

*Figures marked with an asterisk represent the trade within the group itself.

CHART X

EXPORTS OF ASIAN COUNTRIES TO OTHER ASIAN COUNTRIES & THE REST OF THE WORLD

-  INDIA, BURMA & CEYLON
-  SOUTH-EAST ASIA
-  JAPAN, FORMOSA & KOREA
-  CHINA & OTHER CONTINENTAL COUNTRIES OF ASIA
-  REST OF THE WORLD



The most important general conclusion which emerges from the above table is that the intra-Asian export trade is much smaller than the intra-Asian import trade. About 30 per cent. of the import trade of India, Burma and Ceylon is with Asian countries, while only about 22 per cent. of their export trade is with them. This tendency is even more noticeable in the case of South-east Asian countries. Their imports from the non-Asian countries in 1938 were 53·5 per cent. of their total imports, but their exports to them in the same year were 66·0 per cent. of the total. In the case of China, the imports from the rest of the world in 1935 were 45·4 per cent. and exports to the rest of the world were 54·4 per cent.

The explanation for this comparatively larger diversification of the export trade lies in the fact that raw materials, which constitute the main exports of these countries, are more or less in universal demand, and, furthermore, since raw materials are largely consumed in industrialized countries, there has been much less demand for them in Asian countries. In the result, it would appear that the Asian countries have a great deal of competition amongst themselves in the sale of their raw materials abroad.

In the case of Japan, however, the trend noticed above is entirely different. Her imports from the rest of the world are very much greater than her exports. In 1935, Japan's imports from the non-Asian countries were 63·5 per cent. of her total imports while her exports to them (mostly of raw silk to the U.S.) were only 48·6 per cent. of her total. The import figure for 1938 was 60·0 per cent. while the export figure was only 37·8 per cent. The explanation for this completely opposite trend in the case of Japan lies in her being so highly industrialized. Both her import and export trades with the other Asian countries were complementary to each other; or, in other words, Japan could buy what the Asian countries could sell and could sell what they wanted to buy.

Another general conclusion which emerges from a comparison of the intra-Asian import and export trades is that the volume of intra-Asian trade will increase greatly, if all the Asian countries are highly industrialized. It has been seen that the rice deficits and surpluses in the South-east

Asian countries account for a great deal of the large inter-group trade amongst those countries. A similar development will ensue in respect of export trade if industries develop all round in Asia. There would then be much trade in raw materials which will be augmented later by the exchange of the manufactured articles of each country.

India, Burma and Ceylon. The inter-group exports of India, Burma and Ceylon were about 4.1 per cent. of their total exports. The exports to Japan, which was the best pre-war Asian customer, were about 8.2 per cent. of the total. The total exports of this group to Asian countries did not, however, amount to more than 21.9 per cent. of the total; and the rice from Burma was the most important article.

South-east Asia. The inter-group exports of these countries in 1938 were 21.0 per cent. of the total and the remarks about rice in the preceding section on their import trade are equally applicable here. Being largely rice-producing countries, their exports to Japan were smaller than the exports of any other group of Asian countries. While 16.2 per cent. of their total imports in 1935 came from Japan, only 6.6 per cent. of their exports were consigned to that country.

China and Continental Asian Countries. The trade statistics of China and the other countries in this group are unreliable; and their inter-group trade is considerable. The only noteworthy feature of the figures in the table is the large volume of exports to Japan.

Japan, Korea and Formosa. The noteworthy feature of Japan's exports is that 62.2 per cent. of her total export trade is with Asian countries. Among the Asian countries, China was by far the largest purchaser of Japan's exports.

TRADE IN CERTAIN ARTICLES

An earlier Chapter³ has shown that the bulk of the import trade of Asian countries is in manufactured articles and food-stuffs and that the export trade is mostly in raw materials.

3. Chapter II, p. 29.

This chapter has further shown the large volume of intra-Asian trade both in imports and exports.

It is, therefore, necessary to examine the articles which constitute the imports and exports of each of the individual Asian countries and to determine the broad features of their trades according to imported and exported articles.

Two tables have been compiled to show the import and export trades of Asian countries in certain important articles. Both of these tables have been compiled from *The Foreign Commerce Year-book*, 1939, on the averages for 1937, 1938 and 1939. It has not been possible, as in many of the League of Nations' publications, to adjust the directions of imports so as to show their origin or to adjust the exports so as to show the exact regions of final consumption. But these tables do, in spite of their limitations, present a fairly accurate picture of the trade in selected commodities.

IMPORT OF CERTAIN ARTICLES

The table on p. 81 shows the imports of (i) rice, (ii) sugar, (iii) textiles, and (iv) textile-making materials into Asian countries. The definitions for 'textiles' and 'textile-making materials' are given in the footnotes.

An important conclusion which emerges from this table is that nearly 25 to 30 per cent. of the import trade of Asian countries is in four articles, viz., rice, sugar, manufactured textiles and textile-making materials. The countries whose imports of these articles amount to more than 30 per cent. of their total imports are Persia and Ceylon; and those whose imports are between 25 to 30 per cent. are India, Iraq, Netherlands East Indies, French Indo-China, Japan, Burma and Siam.

Asian countries are industrially under-developed, and even in the case of Japan, which is the most developed of all the Asian countries, the consumption of factory products per head of the population in 1926-9 did not exceed 28 U. S. dollars. In India and China it was valued at 3 U. S. dollars as against the figure of 254 U. S. dollars in the U. S. or 164 dollars in the U. K. Furthermore, a third of the Indian

Statement Showing the Imports of (i) Rice, (ii) Sugar, (iii) Textile
and (iv) Textile Making Materials

(Figures are averages for 1937, 1938 and 1939 and all the
values are in Millions of U.S. Dollars)

| Countries | Rice | Sugar | Textiles | Textile- Making Materials | Total of Columns 2 to 5 | Total Imports | Col. 6 as Percentage of Col. 7. |
|--|------|-------|----------|---------------------------------|-------------------------------|------------------|---------------------------------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| India ⁽¹⁾ | 44.1 | 4.4 | 72.9 | 39.8 | 161.2 | 550.1 | 29.3 |
| Burma ⁽²⁾ | — | 0.5 | 20.3 | — | 20.8 | 77.6 | 26.8 |
| Ceylon | 19.4 | 2.5 | 9.9 | — | 31.8 | 89.1 | 35.7 |
| China ⁽³⁾ excluding Manchuria | 15.3 | 9.0 | 17.2 | 20.3 | 61.8 | 315.0 | 19.6 |
| Manchuria | 3.5 | 9.0 | 49.2 | 7.8 | 69.5 | 329.9 | 21.0 |
| British ⁽⁴⁾ Malaya | 31.4 | 5.8 | 21.4 | — | 58.6 | 258.8 | 22.6 |
| Netherlands Indies ⁽¹⁾ | 9.4 | — | 62.4 | — | 71.8 | 250.0 | 28.7 |
| Siam ⁽⁵⁾ | — | 1.5 | 11.8 | — | 13.3 | 51.9 | 25.6 |
| Japan Proper | 0.9 | 2.3 | 5.0 | 226.9 | 235.1 | 867.3 | 27.1 |
| Chosen ⁽⁶⁾ | 2.0 | 3.0 | 56.0 | 7.2 | 68.2 | 329.8 | 20.7 |
| Taiwan | — | 0.3 | 0.8 | 7.4 | 8.5 | 88.8 | 9.6 |
| Iraq ⁽⁷⁾ | — | 3 | 10 | — | 13 | 44 | 29.1 |
| Persia ⁽⁸⁾ | — | 6 | 14 | — | 20 | 60 | 33.3 |
| French Indo- China | — | — | 12.6 | 3.9 | 16.5 | 59.7 | 27.6 |

Figures in the above table have been compiled from *The Foreign Commerce Year-book*, 1939, published by the U.S. Department of Commerce, except where so stated. The group Textiles includes all manufactured textile materials including yarn, cloth, wearing apparel, etc., and the group Textile-making Materials includes unmanufactured fibrous substances such as raw cotton, raw silk, rayon pulp etc., but does not include jute or hemp.

All the figures are for general imports, except otherwise stated, and exclude bullion.

(1) General imports excluding bullion.

(2) Averages for 1938-9 and 1939-40. Eleven months figures for the later year are converted on a twelve-month basis.

[3-8 continued on p. 82]

- (3) Figures are for net imports and *not* general imports.
- (4) Figures for imports have been adjusted by excluding imports of rubber, raw rubber, tin ore and bullion.
- (5) Averages for three years 1936-7 to 1938-9.
- (6) Average of 1938 and 1939.
- (7) Compiled from the *Review of Commercial Conditions of Iraq*, Feb. 1945, published by H. M. Stationery Office. £ 1 sterling has been converted into U.S. Dollars at \$ 5.00 to £ 1 sterling.
- (8) Figures relate to one year ending 21 June 1938 and exclude articles imported free of duty. Compiled from the *Review of Commercial Conditions in Persia*, April 1945, H.M.S.O. £ 1 sterling has been converted into U.S. Dollars at \$ 5.00 to £ 1 sterling.

and Chinese consumption was derived from imports.⁴ In short, Asian countries are dependent on industrialized countries for all kinds of manufactured goods and their import schedules reveal hundreds of small items, mostly below one per cent. of the total value, which together make up the bulk of their imports. The larger items consist mostly of machinery of all kinds, drugs and medicines, household articles, of hardware and heavy chemicals, minerals and metals.

Considering such diversified dependence on imported manufactured articles and considering Asia's low standards of living, the fact that 25 to 30 per cent. of her total imports should consist of only four articles (rice, sugar, textiles and textile-making materials) becomes significant. It reveals the lack of self-sufficiency which leads not only to the imports of manufactured articles but also to those of foodstuffs and clothing required for subsistence. Furthermore, it shows the great scope there is for development of trade in these articles, since their consumption in Asia is as yet extremely low; and since much of the increased production would go into foreign trade.

It must also be recognized that the bulk of the foreign trade in these articles is intra-Asian. Rice and sugar, for example, are both produced in Asia and the consumption of the Asian countries is mostly from the produce of Asia. Although Asia also imports cotton from the U.S.A. and Egypt the bulk of the trade is in Asian produce and practi-

4. *Industrialisation and Foreign Trade*, League of Nations, 1945, p. 22.

cally the whole of the trade in textiles and textile-making materials must be considered to be intra-Asian.

Nutritional standards all over Asia are known to be low and increased production of sugar and rice will not only raise the volume of intra-Asian trade, but will also raise the efficiency and productivity of the Asian people. As for textiles and textile-making materials, their position is more or less similar to that of rice and sugar. They are essential for raising the living standards in Asia, and Asia has, no doubt, many natural advantages both in the production of textile-making materials and in their manufacture. In fact, almost every Asian country grows some cotton and its cultivation and manufacture are at present handicapped by the low purchasing power of the people. It is almost certain that the increased cultivation of cotton, the encouragement of handloom cloth and the establishment of textile industries would, accompanied by a rise in the production of rice and sugar, bring about a quicker and more evenly distributed rise in Asia's standards of living than any other policies of economic development. Asian countries must, therefore, strive together to raise the volume of intra-Asian trade in these articles. This, however, could not be achieved, unless the action to be taken is co-operative and all the bigger policies of trade expansion are co-ordinated and executed on a pan-Asian basis.

EXPORTS OF CERTAIN ARTICLES

The table on pp. 84 and 85 shows the exports of certain important articles from the various countries of Asia. They are (i) rice, (ii) sugar, (iii) tea, (iv) rubber, (v) tin and tin ore, (vi) textile products and (vii) textile-making materials. The figures in this as in the preceding table have been compiled from *The Foreign Commerce Year-book*, 1939, and are the averages for 1937, 1938 and 1939.

An important conclusion which emerges from these figures is the high concentration of Asia's exports in these seven articles. Taken together, they account for more than 70 per cent. of the export trade of five countries, namely, India (75.1 per cent.), Ceylon (82.0 per cent.), British Malaya (74.6 per cent.), Siam (92.5 per cent.) and Formosa (76.7

**Statement Showing the Exports of (i) Rice (ii) Tea (iii) Sugar (iv) Rubber (v) Tin (vi) Textiles
and (vii) Textile-Making Materials**

(Figures are averages for 1937, 1938 and 1939 and all values are in Millions of U.S. Dollars. Figures in brackets show the percentages to total exports as shown in Col. 10)

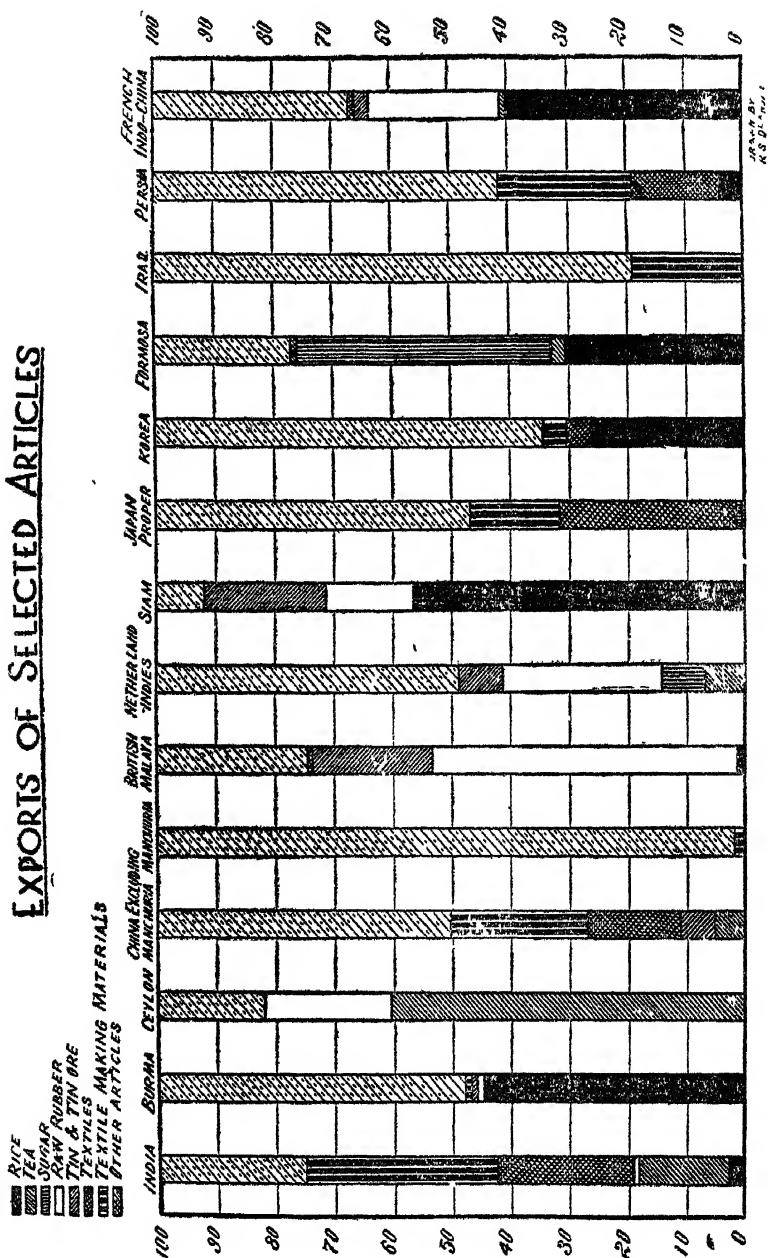
| Countries | Rice | Tea | Sugar | Rubber | Tin and Tin Ore | Textiles | Textile making materials | Total of Cols. (2) to (8) | Total Exports | Col. (9) as per cent of Col. (10) |
|-----------------------------------|----------------|----------------|---------------|-----------------|--------------------|-----------------|--------------------------------|------------------------------|------------------|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | |
| India (1) | 14.8 (2.7) | 84.4 (15.6) | — | 3.0 (0.6) | — | 127.1 (23.5) | 177.1 (32.7) | 406.4 | 541.2 | 75.1 |
| Burma (2) | 75.4 (44.7) | — | — | 1.8 (1.1) | 1.3 (0.8) | — | 2.0 (1.2) | 80.5 | 168.6 | 47.8 |
| Ceylon (3) | — | 62.9 (60.4) | — | 22.5 (21.6) | — | — | — | 85.4 | 104.1 | 82.0 |
| China, excluding Manchuria (4) | — | 6.6 (5.2) | — | — | 7.8 (6.2) | 19.8 (15.7) | 29.3 (23.2) | 63.5 | 126.3 | 50.3 |
| Manchuria (5) | — | — | — | — | — | 0.5 (0.3) | 3.3 (1.8) | 3.8 | 183.5 | 2.1 |
| British Malaya (6) | 6.2 (1.5) | — | — | 210.0 (51.9) | 82.2 (20.3) | 3.3 (0.8) | — | 301.7 | 404.4 | 74.6 |
| Netherlands Indies (7) | 1.0 (0.2) | 29.4 (7.0) | 31.0 (7.4) | 113.5 (27.0) | 32.1 (7.6) | — | — | 207.0 | 420.8 | 49.2 |
| Siam (8) | 40.1 (56.5) | — | — | 10.7 (15.1) | 14.7 (20.7) | 0.2 (0.3) | — | 65.7 | 71.0 | 92.5 |
| Japan proper (9) | — | 5.4 (0.6) | 6.9 (0.8) | — | — | 264.6 (30.5) | 130.0 (15.0) | 406.9 | 866.1 | 47.0 |

| | | | | | | | | | | |
|----------------------------|----|----------------|--------------|----------------|------|---------------|---------------|------|-------|------|
| Korea (10) | .. | 67.2 (26.3) | — | 0.9 (0.4) | — | 11.1 (4.3) | 10.1 (3.9) | 89.3 | 256.0 | 35.0 |
| Formosa | .. | 36.2 (30.2) | 3.3 (2.8) | 51.6 (43.1) | — | 0.8 (0.7) | — | 91.9 | 119.8 | 76.7 |
| Iraq (11) | .. | — | — | — | — | — | 3.5 (18.9) | 3.5 | 18.5 | 18.9 |
| Persia (12) | .. | 1.6 (3.8) | — | — | — | 6.5 (15.3) | 9.5 (22.4) | 17.6 | 42.4 | 41.5 |
| French Indo- China (13) | .. | 35.9 | 0.6 | — | 20.2 | 2.3 | 0.6 | 59.6 | 89.1 | 66.9 |

Note :—Figures in the above table have been compiled from *The Foreign Commerce Yearbook*, 1939, published by the U.S. Department of Commerce, except where so stated. The group Textiles includes all manufactured textile materials including yarn, cloth etc., and the group Textile-Making Materials includes unmanufactured fibrous substances such as raw cotton, raw rayon, etc. The figures exclude bullion and re-exports where separate figures for them were available.

(1) Excludes bullion and re-exports. The group 'Textiles' includes jute burlaps and jute bags, and the group 'Textile-Making Materials' includes Hemp and Jute. (2) Averages for 1938-9 and 1939-40. Eleven months figures for the latter year are converted on a twelve-month basis. Figures relate to domestic exports and exclude bullion. (3) Exports of Ceylonese products. (4) Figures relate to net exports of Chinese products and exclude bullion. (5) Exports of Manchurian products. (6) Excluding Bullion. (7) Figures relate to Netherlands Indies products and exclude Bullion. (8) Exports of Siamese products, excluding Bullion and Coin. (9) Exports of Japanese products. (10) General Exports. Averages of two years 1938 and 1939 only. Represents woollen Carpets. (11) Averages of two years 1938 and 1939 only. £ Sterling converted into U.S. Dollars at \$ 5=1 £ Sterling. Compiled from the *Review of Commercial Conditions in Iraq*, February 1945, issued by H.M.'s Stationery Office. (12) The figures relate to the one year ending 21 June 1938 and exclude exports of mineral oil which amounted to \$ 116.6 million in that year.—£ Sterling converted to U.S. Dollars at \$ 5=1 £ Sterling. Compiled from the *Review of Commercial Conditions in Persia*, April 1945, issued by H.M.'s Stationery Office. (13) Exports of French Indo-China products, excluding bullion.

CHART XI
EXPORTS OF SELECTED ARTICLES



per cent.). The exports of these seven articles from French Indo-China account for 65·6 per cent. of her total exports. In the case of five other countries, they account for about 40 to 60 per cent. of their total exports, namely, Burma (47·8 per cent.), China (50·3 per cent.), Netherland's East Indies (49·2 per cent.), Siam (47·0 per cent.) and Iraq (41·5 per cent.). In the case of Japan proper, they account for 37·0 per cent. Vide chart on p. 86.

Analysed further, the excessive specialization of some of the countries on one or two articles becomes more evident. About 16 per cent. of India's total exports consist of tea, 24 per cent. are those of manufactured textiles and 33 per cent. of textile-making materials, including jute. Taken together, these articles account for nearly 73 per cent. of India's total exports. Nearly 45 per cent. of Burma's total exports consist of rice alone and in the case of Ceylon 82 per cent. of her total exports are in tea (60·4 per cent.) and rubber (21·6 per cent.). China's exports are more evenly spread than those of any other country except Japan; but even so, 15·7 per cent. of the total exports are in textiles and 23·2 per cent. in textile-making materials, mostly raw cotton and silk. Over 72 per cent. of British Malaya's exports are in rubber (51·9 per cent.) and tin and tin ore (20·3 per cent.). Over 92 per cent. of Siam's exports are in rice (56·5 per cent.), tin and tin ore (20·7 per cent.) and rubber (15·1 per cent.).

Chapter II has discussed in some detail the general position of Asia as a producer and exporter of raw materials. The figures in this section now reveal how some of the Asian countries depend almost entirely on one or two articles of export for their foreign exchange and domestic stability. Any fall in the prices of these raw materials or foodstuffs or any unforeseen damage to their production or transport must wholly upset the economic stability of the countries concerned. Not being the consumers of their own products, they have absolutely no control over the fate of the commodities they produce and export, and since their export trade is so highly specialized, they remain entirely at the mercy of the world trade factors over which they have at present no control;

and in periods of commercial strain, they are unable to switch over to some other and more profitable production.

The excessive dependence of a national economy on any one region or factor of production or economic activity is always a danger to the economy concerned. In India, for instance, the excessive dependence on the monsoon is the cause of famine and agricultural backwardness; in the U.K. the excessive concentration of heavy industry in a few regions has been an important cause of unemployment, and in Australia, the heavy dependence on the exports of wheat and wool has been a source of much anxiety and embarrassment.

The position of the Asian countries in this respect has always been incomparably worse than that of any other nation. Although they are geographically more or less contiguous and although the spiritual and moral contacts among them have always been so close, they have always operated in isolation and there has been very little economic co-operation and co-ordination among them. This has been due to causes which are political, and due to the power politics and economic rivalries among the 'metropolitan powers'. This excessive specialization in such a few articles has no doubt prevented a more rapid rise in Asia's living standards and this still constitutes a very real threat to their rise in future. Chapter II has suggested certain lines of pan-Asian co-operative action in respect of raw materials and it is obvious that it must be supplemented by national policies aimed at the diversification of domestic production through the development of new raw materials and varied industrial products.

FOREIGN INVESTMENT AND BALANCE OF TRADE

A considerable amount of literature has gathered round the problem of foreign investments in Asia and their effects on the borrowing countries. This discussion has rarely been completely impartial and the new freedom movements in Asia are not likely to make it any more impartial. Fortunately the political aspect of foreign investments is not directly rele-

vant to the subject-matter of this Paper and it is not necessary to discuss it in any detail.

It will however be noted that all the Asian countries were debtor countries before World War II and the bulk of their foreign investments were held by European or American countries. These foreign investments, especially in Malaya, Ceylon, the East Indies, Burma and even in India, have certainly helped to expand the export trade of Asia and there can be no doubt that they have also brought much prosperity to the Asian people.

But foreign investments have also been responsible for the excessive export specialization of the Asian countries and it is largely due to them that their economies have hitherto expanded along such narrow lines. The foreign investor cannot be blamed wholly for this ; what has happened is that one side of economic activity, namely the export trade activity, has advanced a great deal farther than the purely domestic sides. There has not been much co-ordination between the relative paces of their growths, with the result that the Asian countries at present appear to be so under-developed.

Although excessive specialization on the one side and general under-development on the other are a handicap to world trade and national prosperity, there is nothing either permanent or irremediable about them. On the other hand, the present development of export activity brings to these countries a great deal of foreign exchange and thereby gives a considerable impetus to other lines of their national development.

The following table which has been compiled from Annexe III of *The Network of World Trade* shows the balance of trade positions of the various Asian countries. The import values are all c.i.f., while the export values are f.o.b. Furthermore, the table is not adjusted to show the regions of final consumption or destination and suffers from many other limitations common in such compilations. The worst of these limitations is that they are based on prices ruling at the time of import and export and do not therefore show the *quantitative* changes involved in the price-changes. The table does however enable us to build up a rough picture of the balance of trade positions of

Statement showing the Balance of Trade⁵ of the Asian Countries in 1928, 1935 and 1938
(Compiled from *The Network of World Trade*. All values are in Millions of U.S. Dollars)

| | 1928 | | | 1935 | | | 1938 | | |
|--|---------|---------|------------------|---------|---------|------------------|---------|---------|------------------|
| | Imports | Exports | Balance of Trade | Imports | Exports | Balance of Trade | Imports | Exports | Balance of Trade |
| India and Burma | .. | 1,614 | +502 | 527 | 607 | +80 | 538 | 662 | +124 |
| Ceylon | .. | 244 | — 3 | 83 | 87 | + 4 | 86 | 97 | + 11 |
| India, Burma and Ceylon | .. | 1,858 | +499 | 610 | 694 | +84 | 624 | 759 | +135 |
| British Malaya | .. | 835 | — 18 | 270 | 329 | +59 | 314 | 326 | + 12 |
| French Indo-China | .. | 169 | + 26 | 60 | 86 | +26 | 55 | 81 | + 26 |
| Netherlands Indies | .. | 683 | +390 | 188 | 320 | +132 | 268 | 379 | +111 |
| Philippines | .. | 228 | + 34 | 86 | 94 | + 8 | 132 | 116 | — 16 |
| Siam | .. | 139 | + 50 | 49 | 67 | +13 | 57 | 78 | + 21 |
| All South-east Asia including countries not listed above | .. | 2,086 | +496 | 666 | 913 | +247 | 844 | 1,003 | +159 |
| Japan, Korea and Formosa | .. | 1,863 | —261 | 755 | 749 | — 6 | 804 | 824 | + 20 |
| China | .. | 1,469 | —248 | 338 | 205 | —133 | 252 | 146 | —106 |
| Manchuria | .. | — | — | 172 | 107 | — 65 | 343 | 171 | —172 |
| Hong Kong and Macao | .. | 556 | —113 | 185 | 136 | — 49 | 195 | 161 | — 34 |
| Iran | .. | 129 | +130 | 56 | 120 | + 64 | 92 | 150 | + 58 |
| Iraq | .. | 58 | — 24 | 34 | 27 | — 7 | 46 | 39 | — 7 |
| Total for Asia as a whole | .. | 8,266 | +186 | 2,803 | 2,934 | +131 | 3,182 | 3,230 | + 48 |

5. This table relates to Trade in Merchandise only and trade in bullion is excluded.

the various countries and to draw general deductions from them.

Taking Asia as a whole, one very general and broad conclusion can certainly be drawn from the above figures. It is that foreign investments have not resulted in an excessive drain on Asia's resources and the exports have never greatly outstripped the imports. In 1928, which was probably the most prosperous year for Asia, her total exports were only 7 per cent. greater than her imports, in 1935 they were 4 per cent. greater and in 1938 they were only 1.5 per cent. greater. Even if Japan and China were excluded from these calculations, because of their special balance of payments positions, the total *net* exports of all the Asian countries taken together did not in 1928 exceed 700 million U.S. (current) dollars or 9 per cent. of the imports. In 1935, this figure again came to 9 per cent. and in 1938 it amounted to a little over 4 per cent.

The existence of large foreign investments in Asia together with this comparatively small export surplus can only be explained by the fact that the process of foreign investment has never been static and that the investor has been pouring more money into Asia year by year, or, that the investor has not yet been able to recover the full interest and dividends on his investments. The problem of foreign investments in Asia thus becomes more complex than it would appear at first sight. The borrowing countries cannot prove that their wealth has been expropriated by the foreign investor, because the bulk of it is still within their national borders and because there is so far no indication of any excessive drain on their resources. The foreign investor can on the other hand rightly claim that he has done his best to develop Asian resources, that the stage of complete development has not yet been reached and that in his attempt to reach it, he has invested far more money in them than he has been able to recover through better profits and in other ways.

It is against this background that one might consider the effects of foreign investments on Asian trade. Unfortunately our information on the volume of investments in various countries, the terms of those investments and the manner in

which those investments were worked is still meagre and, in any case, we have as yet no idea as to how the terms and volume of those investments have been affected by the war and the post-war changes. With these qualifications in view, the following sections attempt to analyse the relation between Asia's foreign indebtedness and her foreign trade.

India, Burma and Ceylon. There are no accurate estimates of foreign investments in India and such estimates as have been put forward differ enormously. The liabilities of the Government of India before the war were however known to be about £400 million or 1,600 U.S. post-war dollars. As to private foreign investments into India, estimates vary a great deal and a pre-war figure (which has greatly declined since the war) of 2,400 U.S. post-war dollars may be accepted as a good guess. This way we get the total foreign investments into India at 4,000 million dollars.

The Ceylon Trade Journal gives a figure of 190 million dollars (1946) as Ceylon's foreign indebtedness and in the absence of any figure for Burma, a figure of 400 million dollars may be estimated. The figure of \$233 million given by Dr. Callis is certainly an underestimate.⁶

The total pre-war foreign indebtedness of India, Burma and Ceylon would thus appear to be something like 4,600 U.S. current dollars. In addition to the interest, dividend and amortization charges for these debts, all these countries had to make considerable payments abroad for their tourist and diplomatic expenditure, remittances abroad by their foreign civil servants and businessmen, shipping and banking services, etc. It is difficult to estimate the volume of these debit movements, but they must have been considerable.

Assuming that the outward or debit movements on account of foreign debt were only 5 per cent. (which figure, in view of the high interest rates prevailing before the war, does not appear excessive), India, Burma and Ceylon as a group had to remit about 230 million U.S. dollars abroad. The outward

6. *Foreign Capital in South-east Asia*, I.P.R. International Research Series, 1942.

or debit movement on account of charges, other than debt charges, could not have been less than 200 million U.S. dollars.⁷

We may therefore assume that the India, Burma and Ceylon group had to maintain an export surplus of at least 430 million dollars per year merely to balance their ordinary debit (money) movements on account of debt and other charges.

The figures in the above table show that the net export surplus in 1928 was \$499 million and that it declined to \$84 million in 1935 and to \$135 million in 1938. Except in 1928, the export surplus was not enough to meet the various debit charges of these countries and in the result they had to resort to the export of bullion to make up this deficiency. On the whole, it also appears that Ceylon and Burma were not large exporters of bullion, but India was certainly called upon to make up her balance of payments by gold exports, as is shown by the following figures. During the war, India has liquidated all her foreign government indebtedness and possibly much of the private foreign debt as well. In addition, she has sterling assets valued at about \$5,000 millions or a little less. In the meantime, she has unfortunately become a large food deficit country and her food imports are now at least of the order of \$150 million per year.

But taking India, Burma and Ceylon as a whole, it may be expected that they will not need to maintain such large export surpluses as they did during the pre-war period, or, in other words, their imports, relatively to their exports, will increase very considerably. And in the long run these imports will be utilized towards the purchase of capital equipment for industrial expansion.

7. It need not be emphasized that this estimate of \$ 200 millions is an extremely conservative one. Official figures which are available for Ceylon estimate the incidence of 'dividend and interest' charges on Ceylon's foreign capital at 10 per cent.

British India's Balance of Trade⁸ in Merchandise and Bullion

| | 1929 | 1931 | 1933 | 1934 | 1935 | 1938 |
|--------------------------|-------|-------|-------|-------|-------|-------|
| Balance of Private Trade | | | | | | |
| in Merchandise .. | +722 | +290 | +296 | +231 | +228 | +121 |
| Rs. Mns. .. | (100) | (100) | (100) | (100) | (100) | (100) |
| Balance of Trade | | | | | | |
| (Private and Govt.) | | | | | | |
| in Bullion .. | -35 | +317 | +563 | +640 | +523 | +139 |
| Rs. Mns. .. | (5) | (109) | (187) | (280) | (230) | (109) |

*South-east Asia.*⁹ Taken as a group, the South-east Asian countries have a large favourable balance of trade in merchandise. In 1928, their favourable balance of trade was \$496 millions which was about 25 per cent. of their imports. In 1937, their export surplus was 37 per cent. of their imports and, in 1938, it was nearly 19 per cent. These figures were somewhat higher than those for the India, Burma and Ceylon group whose export surplus in 1928 amounted to 26 per cent. of their imports, while in 1935 it was 14 per cent. and in 1938, 22 per cent.

This relatively high proportion of South-east Asian exports is certainly due to the comparatively small part which gold has played in their exports. These countries do not possess any large stocks of domestically utilized, or what the Western economist would call 'hoarded', gold and cannot therefore mobilize it to the same extent as India in times of economic stress or dislocation.

The total foreign investment in these countries are summarized below from Dr. Callis' estimates and they show that

8. Compiled from the League of Nations Statistical Year-Books.

9. The author is deeply indebted to Dr. Helmut Callis' *Foreign Capital in South-east Asia* prepared for the Institute of Pacific Relations, New York, 1942, and the foreign debt estimates in this section are taken from it.

the total foreign investments in this group of countries are only a little smaller than those in the India, Burma and Ceylon group.

Estimates of Foreign Investments, excluding Chinese Investments,
in 1937 or 1938

| | | Millions of U.S. Dollars |
|--------------------|----|-----------------------------|
| Netherlands Indies | .. | 2,264 |
| British Malaya | .. | 455 |
| Siam | .. | 124 |
| Philippines | .. | 376 |
| French Indo-China | .. | 384 |
| | | <hr/> |
| Total | .. | 3,603 |
| | | <hr/> |

Apart from the charges concerning this foreign debt of \$ 3,600 million, these countries had probably a great many commitments abroad, since 80 per cent. of their investments were, as Dr. Callis terms them, entrepreneur investments worked directly and often locally by the foreign lender himself. This accounted for the large European populations in South-East Asia and their far-flung (and often undesirable) influence in every sphere of national activity.

But it is difficult to generalize about the effects of foreign debt on trade for South-east Asia as a whole, since the patterns of lending differ from one country to another. A more useful approach for detailed study will therefore be to take up each country individually and examine her position in respect of her foreign trade and foreign debt.

British Malaya. Dr. Callis estimates the foreign debt of British Malaya at \$455 million; and shows that 26 per cent. of it was government-owned and was largely locally held. Of the remaining and non-government debt, an appreciable amount was also held locally. Furthermore, the issues of corporation debentures, in British Malaya, were always small and, as Dr. Callis points out, this 'comparative absence' of fixed-interest-bearing securities has been a great advantage to the colony, particularly in times of economic stress.

Apart from these factors making for the relative strength of this colony, it had probably a considerable income from the port dues of Singapore and the export cesses on rubber and tin. Furthermore, a certain amount of new capital was coming into the colony in the nineteen-twenties and this process had not altogether ceased in the nineteen-thirties. The following table therefore shows that the exports of British Malaya relatively to her imports were never very big and were much smaller than those of the Netherlands East Indies. Exports of bullion from the colony were also, relatively to other Asian countries, small.

Percentage of Exports of Merchandise to the Imports of Merchandise
(Compiled from *The League of Nations' Year Book*)

| | | | |
|------|--------|------|--------|
| 1929 | .. 104 | 1935 | .. 122 |
| 1931 | .. 89 | 1936 | .. 124 |
| 1932 | .. 86 | 1937 | .. 130 |
| 1933 | .. 107 | 1938 | .. 104 |
| 1934 | .. 117 | | |

The above figures show that foreign debt has not involved any great drain on Malaya's resources. Assuming that 10 per cent. of the export trade represents a country's non-merchandise outward or debit movements (5 per cent. for debt charges and 5 per cent. for others), it would appear that Malaya has not been always able to meet in full her legitimate debit charges.

Netherlands East Indies. The Netherlands East Indies enjoy rather a favourable position in respect of their export trade, in the sense that it is not so highly concentrated as that of Malaya, Burma or Ceylon. The East Indies have four main articles of export, namely, sugar (7.4 per cent.), tea (7.0 per cent.), raw rubber (27.0 per cent.) and tin and tin ore (7.6 per cent.). All these articles put together accounted for only 49 per cent. of the total pre-war exports. These countries were therefore relatively less vulnerable to price changes and fared somewhat better than other Asian countries during the depression of the nineteen-thirties. In the result, the East Indies appear to have maintained a fairly high export surplus :

Percentage of Exports of Merchandise to Imports of Merchandise

(Compiled from the League of Nations Statistical
Year Books)

| | | | |
|------|--------|------|--------|
| 1929 | .. 136 | 1935 | . 166 |
| 1931 | .. 126 | 1936 | . 203 |
| 1932 | .. 142 | 1937 | . 198 |
| 1933 | .. 143 | 1938 | .. 141 |
| 1934 | .. 170 | | |

As they stand, these figures show the relatively strong position of the Netherlands East Indies and the League of Nations reports on the balance of payments throw further light on the position of this country. On the whole, the Netherlands East Indies seemed to require about \$180 million per year to meet *all* their commitments abroad, including debt charges, diplomatic expenditure, personal remittances, etc., and this figure amounted to 8 per cent. of the total foreign debt of \$ 2,264 million. The value of exports, had on the balance, somewhat exceeded these commitments; and it would appear again that there was no indication of any colonial exploitation in the financial or commercial sense.

The League of Nations' balance of payments reports indicate that the East Indies had been the net borrowers of foreign capital in the nineteen-thirties and that, on the whole, the foreign lender was subject to considerable restrictions in the colony. The colonial government has a network of State enterprises and foreign capitalists have to compete with them. In the result, 'entrepreneur' investments in this colony relatively to 'rentier' investments have comparatively been small and their proportion to the total foreign debt is the smallest in the whole of South-east Asia.

All these are factors of intrinsic strength in the economic life of the colony and could be utilized for its rapid postwar development.

Siam. Siam's total foreign debt has been estimated by Dr. Callis at \$124 million, which as he points out is surprisingly small, its value per head of the population being the lowest in South-east Asia. Furthermore, Siam has always

been a gold importing country and had considerable export surpluses even during the depression.

Siam's main exports are rice ((56·5 per cent.), rubber (15·1 per cent.) and tin and tin ore (20·7 per cent.) and these three articles make up nearly 92 per cent. of her total exports. The demand for these articles during the next few years is likely to be very strong and with Siam's small debt and her great resources, she should have little difficulty in finding the money and exchange required for reconstruction.

French Indo-China. The foreign indebtedness of French Indo-China has been estimated by Dr. Callis at \$ 384 million and taking the ratio of annual foreign commitments at 10 per cent. of the total debt, French Indo-China would require to maintain an export surplus of nearly \$ 38 million.

This export surplus as the table in this section shows has rarely accrued during recent years and Dr. Callis explains the position as follows :—

Though Indo-China has a considerable excess of exports over imports, amounting to one million French francs in the boom year 1937, this surplus item on goods account and other smaller credit items on service account are normally unable to cover the substantial yearly outpayments from the colony effected for the transfer of commercial profits, the service of foreign loans, the remittance of individual savings by banks or money orders, and the great spending of French officials and other Indo-Chinese residents outside the country. The balance is restored only partly by such items as new loans, new private investments, and the increasing expenditure of the mother country on defence in the colony. In other words, the growth of capital equipment is not brought about by the accumulation of savings within the colony, but to a large extent by new indebtedness, making for still higher dividend and interest outpayments in the future, and necessitating more exports or further investments.

China. Throughout the past many decades, China has shown a persistent and large unfavourable balance of trade in merchandise and in many recent years her exports have amounted to as little as 40 per cent. of her imports. This is brought out in the following table reproduced from *The Chinese Maritime Customs' Report on the Trade of China, 1939*, p. 68).

| | Chinese Exports as percentage of Imports | | Chinese Exports as percentage of Imports |
|------|--|------|--|
| 1910 | .. 77.50 | 1928 | .. 68.43 |
| 1911 | .. 74.15 | 1929 | .. 66.05 |
| 1912 | .. 75.31 | 1930 | .. 54.79 |
| | | 1931 | .. 45.70 |
| | | 1932 | .. 37.34 |
| 1921 | .. 56.61 | 1933 | .. 45.50 |
| 1922 | .. 59.50 | 1934 | .. 51.94 |
| 1923 | .. 69.38 | 1935 | .. 62.68 |
| 1924 | .. 63.21 | 1936 | .. 75.03 |
| 1925 | .. 70.53 | 1937 | .. 87.93 |
| 1926 | .. 63.41 | 1938 | .. 86.12 |
| 1927 | .. 75.50 | 1939 | .. 76.99 |

Although the above figures do not include gold and silver, they play an important part in China's trade balances. The Chinese, as Prof. Remer points out, 'see the gold price of silver as the prices of gold and when its price is high (and silver is low) gold tends to move out of China, just as it tends to move in when the price is low (and silver is high).¹⁰ The movements of gold and silver largely account for the large excess of imports over exports in Chinese trade; but compared with silver, gold has always been of less importance in that trade. The figures on p. 100 compiled from *The Chinese Maritime Customs' Statistics* thus reveal the relative importance of gold, silver and merchandise trade.

Apart from the importance of gold and silver in Chinese trade, her maritime customs statistics do not record her land-frontier trade with Russia and Hong-Kong and furthermore there is a strong tendency towards undervaluation in China's recorded exports. Some allowance has also to be made for the export duties which have been in operation in China for a number of years and which must be added on to the total

10. Op. cit., p. 191.

(Millions of Chinese Standard Dollars)

| | | Net Balance in gold | Net Balance in silver | Net Balance in Merchandise |
|------|----|------------------------|--------------------------|-------------------------------|
| 1928 | .. | — 9.4 | —165.8 | —318.8 |
| 1929 | .. | + 3.1 | —164.9 | —389.6 |
| 1930 | .. | + 25.8 | —104.4 | —646.4 |
| 1931 | .. | + 50.0 | — 70.8 | —816.4 |
| 1932 | .. | +109.3 | + 10.4 | —867.2 |
| 1933 | .. | + 69.4 | + 14.4 | —733.7 |
| 1934 | .. | + 51.6 | +256.7 | —494.5 |
| 1935 | .. | + 38.7 | + 59.4 | —343.4 |
| 1936 | .. | + 40.6 | +249.6 | —235.8 |
| 1937 | .. | + 58.3 | +398.5 | —115.1 |
| 1938 | .. | — 14.1 | + 80.3 | —123.6 |
| 1939 | .. | + 3.5 | + 2.0 | —306.4 |

value of exports to obtain their true f.o.b. values. After a careful study of the whole matter Prof. Remer added on 10 per cent to the merchandise exports shown in *Maritime Statistics for 1930*, although he accepted the recorded figures for gold and silver.¹¹ The League of Nations' balance of payments statistics add on 10 per cent. to the recorded exports of both merchandise and bullion for 1933 and 15 per cent. for the years 1934, 1935 and 1936. This allowance considerably reduces the recorded excess of China's imports over her exports.

In spite of all these allowances, there can be no doubt that China carries a burden of foreign debt far in excess of her ability to discharge it through normal export surpluses and other services. Prof. Remer estimates China's foreign investments in 1931 at \$3,300 million. 80 per cent. of these investments are entrepreneur investments worked directly by foreign businessmen and the proportion of China's foreign entrepreneur investments to her total investments is, according to Prof. Remer, probably the greatest in the world. Since

11. Op. cit., p. 200.

1931, the Chinese foreign debt has increased considerably and it would be safe to assume that by our usual ratio of 10 per cent. China would require at least \$ 330 million as an export surplus of goods, services, remittances, etc., over her imports.

Surprising as it may appear, China has been able to secure such a credit surplus as would enable her to meet the full burden of her foreign debt and other charges. Furthermore, this has not been achieved merely or even very largely by a continued export of gold and silver, although they have certainly played a large part in China's balance of payments in recent years. Silver has figured especially on the export side during 1934 and after.

The following table shows China's balance of payments during 1933-6 :

Summary Table of China's Balance of Payments
(Manchuria and Johol excluded)

(Compiled from The League of Nations' *Balance of Payments*, 1936)

(Millions of Chinese Standard Dollars)

| Net Balance Inward + Outward - of movement | Goods, Services and Gold | | | | | Known capital items ¹³ | All Items |
|---|--------------------------------|---|-------------------|--------|--------|--------------------------------------|-----------|
| | Merchan- dise ¹² | Interests and divi- dends ¹³ | Other services | Gold | Total | | |
| 1933 | -792.7 | -108.0 | +396.0 | +189.3 | -315.4 | + 30.0 | -285.4 |
| 1934 | -291.9 | -132.6 | +421.0 | +111.6 | +108.1 | + 30.0 | +188.1 |
| 1935 | -177.6 | -162.4 | +404.0 | + 68.7 | +132.7 | +140.0 | +272.7 |
| 1936 | - 40.3 | -107.8 | +468.0 | + 45.6 | +365.5 | + 60.0 | +425.5 |

12. Silver is included in merchandise. Full allowance has been made for under-valuation, etc.

13. Amortization is included in Interests and Dividends and excluded from Capital Items.

It will be noticed that the most important credit or export item in the above statement is that relating to 'Other Services'. The income from this source also appears to be stable and most of it (about 70 per cent.) comes from the remittances of the Chinese emigrants. Nearly 9,000,000 Chinese, retaining Chinese nationality, live overseas and the number of the Chinese who have acquired foreign nationality must also be considerable. The remittances of these emigrants who have perhaps never seen their homeland or have seen it years ago, help the country to maintain its economic stability and foreign trade. It is these remittances which have enabled the Chinese people to import so many more goods than they have been able to export during the past so many decades.

Japan. The foreign trade of Japan has been characterized by an adverse balance throughout her history. Since the beginning of this century upto 1934, the balance was in her favour for only seven years, of which four years were accounted for by the post-war boom of World War I.¹⁴ Partly because of her heavy foreign indebtedness and largely because of the commercial distrust in which she was held, foreign capital markets were virtually closed to her. On the other hand, she was in urgent need of capital and foreign exchange for the maintenance of her large army and navy and for investment in occupied and satellite countries. The export drive of the nineteen-thirties also required much foreign exchange, as Japan had to import the essential raw materials on which her export capacity depended.

A political power trying to rise to the stature of the industrialized countries of the West, Japan lacked their foreign exchange and raw material resources. After much effort and organization she achieved a certain self-sufficiency in food; but it was ever clear that with her lack of raw materials, she must, like Britain, look to her service income for the foreign exchange required for her imports and other needs; and in the nineteen-thirties, this was achieved to a large extent. The following figures compiled

14. *Japan and Manchukuo Yearbook*, 1939, p. 458.

from *The Foreign Commerce Year Book*, 1939, show that Japan's commercial policies and export drive did no more than reduce and, at best, wipe out her unfavourable trade balances during the nineteen-thirties :—

| | General Imports Millions of Yens | General Exports Millions of Yens | Exports as Percentage of Imports |
|---------|--|--|--|
| 1901-5 | .. 341 | 288 | 82 |
| 1906-10 | .. 442 | 421 | 95 |
| 1926-30 | .. 2,103 | 1,925 | 92 |
| 1929 | .. 2,216 | 2,149 | 97 |
| 1930 | .. 1,546 | 1,470 | 90 |
| 1931 | .. 1,236 | 1,147 | 91 |
| 1932 | .. 1,431 | 1,410 | 99 |
| 1933 | .. 1,917 | 1,861 | 92 |
| 1934 | .. 2,283 | 2,172 | 99 |
| 1935 | .. 2,472 | 2,499 | 101 |
| 1936 | .. 2,764 | 2,693 | 97 |
| 1937 | .. 3,783 | 3,175 | 81 |
| 1938 | .. 2,663 | 2,690 | 101 |
| 1939 | .. 2,918 | 3,576 | 123 |

Having nearly balanced her current trade accounts, Japan applied herself towards an increase in her service income from every possible source. The League of Nations' balance of payments accounts show that her inward or credit movements on account of interest and dividends were largely balanced by her outward or debit movements on the same account, as she had latterly become a large investor in the neighbouring countries.

Japan had, however, a large net surplus on account of shipping freights, emigrants' remittances, and a small but still considerable net surplus on account of insurance services. Her net income from these services accounted for nearly a quarter of her exports of physical goods, and her economic and financial stability was based more on this income than her ability to achieve any large export surplus.

It is this fact which is relevant to any consideration of Japan's post-war trade prospects. As soon as she re-enters world trade, she will be faced with the urgent need of importing a large number of raw materials,¹⁵ which are at present in short supply and the prices of which are very high. These imports must precede any exports she may be able to achieve later. But in the next decade or so, her manufacturing capacity will be small, and, with her own people on the verge of starvation, her exports relatively to the pre-war figures must be still smaller. While her need to import will be greater than ever and her capacity to export so much smaller, she will, in addition, be faced with a virtual cessation of her service income. On top of all this, she will be saddled with occupation costs and will probably have to make large reparations.

In short, Japan will become heavily deficit on current account and will remain so for at least another decade. This means her virtual elimination as a dominant commercial power of the East.

This change in the position of Japan will no doubt change the whole pattern of Asia's foreign trade and particularly the intra-Asian trade. It may hasten the industrialization of some of the Asian countries and it may eliminate that constant fear of Japan's cut-throat competition. But, in the main, Japan's commercial downfall should give no cause for optimism in Asia. Japan was the only highly industrialized country in the continent; she was also a large consumer of Asia's raw materials and she supplied an appreciable proportion of Asia's shipping. Her industrialists and technicians also helped in the industrialization of South-East Asian countries. By itself, the elimination of Japan from Asian export markets will not materially help any other Asian country, although it may help the non-Asian countries. In the first instance, every Asian country (including India which has escaped war devastation) is still suffering from all kinds of

15. Chapter II, p. 23 gives a list of articles in which Japan is deficient. The more important are coal, pig iron, rubber, cotton, mineral oils, manganese and vegetable oils.

shortages and none of them has the industries, large and organized enough, to take Japan's place in the next few years. India, for instance, is now exporting cloth not because she has a genuine export surplus, but because she must do her best to help other countries whose cloth shortage is even greater. Secondly, whatever the political aspect of Japan's industrial expansion might have been, she made a genuine attempt to supply the special needs of the Asian markets. Her factory products were cheap, easy to handle, and their sale was well organized. They reached the farthest corners of Asia's vast country-side, and brought some of the advantages of technological progress to the doors of the rural slum dwellers. This could hardly be said of the products of the U.S.A. or Britain or Germany.

In the absence of a rapid internal recovery in other Asian countries, the elimination of commercial Japan will only give a competitive advantage to non-Asian countries; and while this happens, there will neither be any change in the structure of Asia's foreign trade nor will her industrial aspirations be fully *and* rapidly achieved. The restoration of commercial Japan (stripped of her militarist activities) and her friendly co-operation in Asian economic development are thus essential for the benefit of Asia as a whole; and every Asian country must contribute towards her regeneration as an important industrial nation of the world.

FOREIGN INVESTMENT AND POST-WAR TRADE

The foregoing discussion has shown that Asia's foreign indebtedness has not led to any drain on her natural resources and that in all probability the investor has not always recovered his full interest and dividends. The foreign debt, on the other hand, has developed many of her best resources and every Asian country has now an assured market for them. The bulk of Asia's foreign debt is, what Dr. Callis calls, entrepreneur debt and has been worked and operated by the foreign lender himself. Whatever be the political drawbacks of such debt, it has hitherto brought Asia a great deal of technical skill in which she had been deficient and the exist-

ing deficiency of which is likely to hinder her future development. From the purely trade point of view, foreign debt has been all to the benefit of Asia and its successful operation in the past is going to supply her with the bases of rapid post-war development.

Large as the pre-war foreign debt of Asia was, it was not a fraction of her total requirements. Prof. Eugene Staley gives an indication of the *magnitude* of Asia's investment requirements. He shows that if all the Asian countries develop their economies 'at a rate which leads them to add capital equipment as rapidly as Japan did after 1900, they might absorb each year during the first decade about 2,700 million dollars' worth of new capital (from all sources, internal and external). In the second decade, the rate of investment might rise to 4,700 million dollars a year, in the third decade to 9,100 million dollars a year and in the fourth decade to 10,500 million dollars a year'. These figures, Prof. Staley points out, are based on 1936 prices. If allowance were made for the higher money costs of capital goods that prevail at present, they would have to be doubled or trebled.¹⁶

With such high figures and with Asia's complete dependence on foreign and imported capital equipment, it is in the interest of Asia to do all in her power to attract foreign investment in future. But foreign investment is viewed in Asia with much suspicion and with the present disturbing conditions there, it is probable that its flow in future will be much smaller than in the pre-war period. Definite steps will have to be taken, therefore, to encourage the flow of capital to Asia and an essential step in this direction will be the evolution of some international code for the regulation and treatment of foreign capital.

This could hardly be achieved without the assistance and supervision of an Asian organization which must be a part of the Central Asian Commercial Corporation the establish-

16. Eugene Staley, *World Economic Development*, I.L.O., Montreal, 1944, p. 72. It may be mentioned that Prof. Staley does not put forward these figures as forecasts but as 'an indication of what would happen under certain assumptions.'

ment of which has been proposed in Chapter VI. This Asian Organization, which will deal with the control and regulation of foreign capital, would work in close collaboration with the capital lending countries of the world and any international agencies of the United Nations. The Asian organization would suggest the rules of lending and the conditions which the borrowing countries must fulfil. While ensuring the legitimate interests of the lender, the organization will see that foreign debt does not involve political subordination of the borrower, nor does the borrower get permanently tied down to the lender in the commercial sense. It will also examine the changes which have occurred in Asia's indebtedness during and after World War II and suggest improvements in the pre-war systems of lending and borrowing. Finally, it will devise ways by which foreign debt is not allowed to throw undue burden on the national stabilities of the borrowing countries and will suggest means of relief in times of commercial stress and dislocation.¹⁷

Since it is certain that foreign capital will be in extremely short supply for the next few decades, the proposed organization will help to screen the less important borrowing projects and will help to see that foreign capital is distributed amongst the Asian countries on certain fixed and universally understood principles. In short, this proposal is similar to that put forward in Chapter II¹⁸ in respect of the regulation and distribution of capital equipment among the Asian countries and the organization now proposed will have to work in close collaboration with that dealing with capital equipment and will have to be an integral part of the Central Asian Commodity Corporation.

SHIPPING FREIGHTS

Just as it is necessary to have an international code for foreign investments, the time has come to equalize the gains

17. What form this relief will take does not fall within the subject-matter of this Paper.

18. Pp. 46-8.

from merchant shipping and other commercial services. Shipping constitutes a large fraction of the total value of foreign trade and has always been the monopoly of four or five countries of the world. These privileged countries derive all the profits of the carrying trade, while in fact such profits ought to go to the trading countries according to the volume of their trade. And since shipping is expensive to run and has often required State subsidies which the poorer countries cannot afford, it has come to be concentrated more and more in a few countries.

Without internal regulation of merchant shipping and without some method of distributing shipping profits on some well-understood principles, world trade will not expand to the extent to which one would desire. We should therefore have a world merchant marine built and run under international auspices. The dividing line between a merchant marine and a battle fleet is now very small; and an international merchant marine will be as much a factor in expanding world trade as in the maintenance of permanent world peace, if it is run by the United Nations.

This proposal might appear to be grandiose today and will no doubt be ridiculed by the vested interests. Broadly speaking, shipping is more or less nationalized in every country and if the industry is important enough to be virtually owned by individual States, it must be assumed that it is important for international ownership also.

CONCLUSIONS

Following closely on the preceding chapter, which has revealed the smallness of Asia's share in world trade, this chapter examines the main features of intra-Asian trade.

I. *Volume of Intra-Asian Trade*

(i) The volume of intra-Asian trade is large. Nearly 46 per cent. of the total imports into Asia are from Asian countries and nearly 41 per cent. of Asia's total import and export trade is also among the Asian countries. Of the re-

maining total trade, 30 per cent. is with Europe and about 17 to 19 per cent. is with North America.

(ii) The remaining areas of the world, namely, Oceania, Africa, South America and the U.S.S.R., taken together account for only 6 per cent. of Asia's total imports and only 10 per cent. of her total exports.

(iii) A closer analysis reveals the dominant position of Japan in intra-Asian trade. She accounted for 21 per cent. of the total value of intra-Asian import trade and for about 32 to 36 per cent. of the intra-Asian export trade.

II. *Volume of Intra-Asian IMPORT Trade*

(iv) Apart from the inter-group import trade of *India, Burma, and Ceylon* accounting to 7 per cent. of the total group imports, the imports of this group from other Asian countries were about 25 per cent. of its *total* imports. Imports from the non-Asian countries were 66 to 72 per cent.

(v) The inter-group trade of the *South-East Asian* countries was about 27 to 31 per cent. of its total import trade. Its imports from other Asian countries were about 24 per cent. of the total imports. Imports from the non-Asian countries were about 45 to 55 per cent.

(vi) Nearly 40 per cent. of the Japanese Empire's total imports came from the Asian countries and 60 per cent. from the non-Asian countries. Japan's imports from the Asian countries were the highest, as compared with the imports of the other countries from Asia.

(vii) Over 55 per cent. of the total trade of *China and the continental* countries of Asia came from Asia itself.

III. *Volume of Intra-Asian EXPORT Trade*

(vii) The intra-Asian export trade is much smaller than the intra-Asian import trade. The export trade of Asia is geographically more diversified than the import trade. This is due to the world's need of diverse raw materials. Not being so highly industrialized as the European and American countries, Asian countries are not large consumers of raw materials. It follows, therefore, that intra-Asian trade will increase with Asian industrialization.

IV. *Trade in certain articles*

(ix) Between 25 to 30 per cent. of the *import* trades of the Asian countries are in (i) rice, (ii) sugar, (iii) manufactured textiles, and (iv) textile-making materials. In view of the fact that Asian countries are industrially so undeveloped and have to depend on all kinds of imported factory products the fact that over a quarter of the total import trade is in these articles of essential consumption becomes significant. It reveals the lack of self-sufficiency which leads not only to the imports of manufactured articles but also to those of food-stuffs and clothing required for mere subsistence.

(x) Since Asia has many natural advantages in the production and manufacture of these articles, and since there is much scope for their increased consumption, and since the trade in these articles is mostly intra-Asian, we may assume that any increase, however small, in Asia's standards of living will show a more than corresponding increase in the trade in these articles. Increased trade in them will automatically result in increased intra-Asian trade also.

(xi) It therefore becomes a primary object of Asia's foreign trade and national development policies to increase the production of and the trade in these articles.

(xii) An analysis of the exports of (a) rice, (b) sugar, (c) tea, (d) raw rubber, (e) tin and tin ore, (f) manufactured textiles, and (g) textile-making materials reveals the high concentration of Asia's export trade in these seven articles. Taken together, they account for over 70 per cent. of the export trade of five countries, for 66 per cent. of the export trade of one country and for over 35 per cent. of all the remaining important Asian countries.

(xiii) This excessive export specialization is fraught with many dangers to Asia's foreign trade and economic development. An object of Asian development policy must, therefore, be a larger diversification of her export trade, and the reduction of the excessive dependence on so small a number of export articles. The best method of achieving a balance will be the increased manufacture of hand-made or cottage

industry products for which Asia has much natural advantage and aptitude. (See Chapter I, pp. 16-16E).

V. *Foreign Investment and Balance of Trade*

(xiv) In spite of our very scanty information on Asia's foreign indebtedness, an attempt has been made to estimate the effects of that debt on Asia's foreign trade.

(xv) All the evidence which can be brought to bear on the subject has shown that foreign debt has not led to any drain on Asia's natural resources. The export specialization which it has involved can in future be utilized for Asia's economic development.

(xvi) The foreign debt position of individual countries has been examined and the main conclusions which have arisen are :—

(a) *India, Burma and Ceylon* required about 430 million U.S. dollars in pre-war years for their debt charges. This amount was always available through export surplus, except in the nineteen-thirties when it was supplemented by gold exports. The post-war position will be easier.

(b) *British Malaya's* trade surplus does not appear always to have been sufficient to meet all her debt charges. The debt was also better managed than in other South-East Asian countries.

(c) With her diversified exports, the *Netherlands East Indies* have always been in a more favourable position than the other South-East Asian countries. In spite of their large debt, they have always had the export surplus required for meeting the debt charges.

(d) *Siam* was the least indebted country in the South-East Asia group and her post-war trade position appears to be promising.

(e) *French-Indo-China* has rarely had the necessary export surplus.

(f) In spite of her heavy debt and unfavourable trade balances, *China* has been able to balance her outward and

inward payments largely because of the emigrants' remittances.

(g) The importance of service income in *Japan's* balance of payments is examined as also the probable effect of its loss on her post-war commercial position.

V. *Foreign Investment and Post-war Trade*

(xvii) A suggestion is put forward that the question of foreign debt should be examined in detail by an Asian organization working in co-operation with lending countries. This organization should also suggest lines of future control. Since Asia will continue to require large investment in future, the interests of the lender must be always taken into account.

(xviii) A proposal in a very tentative form is also put forward for the international ownership and operation of the world's merchant marines.

CHAPTER V

COMPOSITION OF THE TRADE OF ASIAN COUNTRIES

INDIA

Some of the main features of India's foreign trade have already been discussed in the earlier chapters. Briefly summarized, they are: (i) India's export trade is more widely diffused than her import trade; (ii) her export trade is largely in raw materials and her import trade in manufactured articles; and (iii) being a debtor country, India has had to maintain large export surpluses.

There had, however, been a pronounced tendency for India's balance of trade to decline progressively during the depression of the nineteen-thirties, and she had to resort to gold exports on a large scale. This is brought out in the following table:—

| (Value in millions of gold dollars) | | | | |
|-------------------------------------|----|---------|---------|------------------|
| | | Imports | Exports | Balance of trade |
| 1901-5 | .. | 289 | 461 | +172 |
| 1911-5 | .. | 488 | 695 | +207 |
| 1921-5 | .. | 747 | 1,043 | +296 |
| 1928 | .. | 925 | 1,205 | +280 |
| 1932 | .. | 347 | 346 | — 1 |
| 1933 | .. | 280 | 355 | + 75 |
| 1934 | .. | 294 | 336 | + 42 |
| 1935 | .. | 196 | 353 | + 57 |
| 1936 | .. | 276 | 433 | +157 |
| 1937 | .. | 384 | 401 | + 17 |
| 1938 | .. | 317 | 355 | + 38 |

It will be seen from the following figures that while the reduction of India's balance of trade was progressing, a gradual change in the very composition of her foreign trade was also taking place.

Percentage Distribution of Imports and Exports

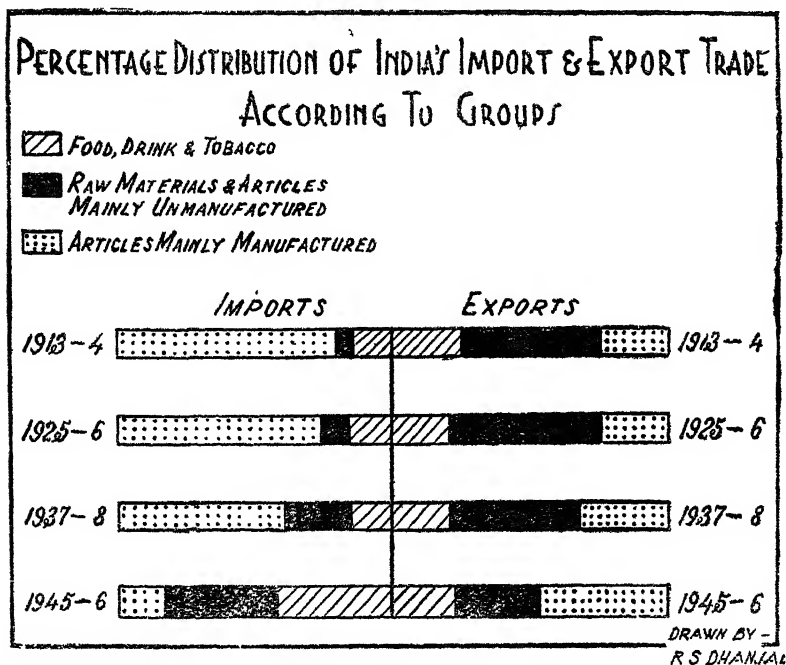
| | Imports | | | | Exports | | | |
|---|---------|--------|--------|--------|---------|--------|--------|--------|
| | 1913-4 | 1925-6 | 1937-8 | 1945-6 | 1913-4 | 1925-6 | 1937-8 | 1945-6 |
| Food, Drink and Tobacco | 13.5 | 14.6 | 12.6 | 9.3 | 26.4 | 21.8 | 22.7 | 22.5 |
| Raw Materials and Articles mainly unmanu- factured | 5.8 | 9.3 | 23.5 | 48.5 | 50.3 | 53.4 | 44.8 | 29.0 |
| Articles mainly manu- factured | 80.0 | 74.3 | 62.0 | 40.6 | 22.7 | 24.0 | 32.7 | 46.0 |
| Others | 0.7 | 1.8 | 1.9 | 1.6 | 0.6 | 0.8 | — | 2.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

This table reveals certain important changes in the composition of India's foreign trade. It is characteristic of a country's industrial advance that there should be, on the one hand, an increase in the exports of manufactured articles accompanied by a decrease in their imports, and, on the other, an increase in the imports of raw materials accompanied by a decrease in their exports. An increase in industrial production places a country simultaneously in a position to reduce its intake of foreign industrial products, to utilize a larger proportion of its own raw materials and to consume additional or specialized raw materials from abroad. This trend has been prominently in evidence in India during pre-war years and has been accelerated during the war. Nearly 80 per cent. of Indian imports in 1913-4 consisted of manufactured articles, mostly cotton piecegoods, and only 5.8 per cent. of the imports were of raw materials. During 1937-8, on the other hand, imports of manufactured articles had declined to 62 per cent. of the total imports and the imports of raw materials had risen to 24 per cent. On the export side, there was, during the same period, an appreciable increase in the exports of manufactured

articles accompanied by a decrease in the exports of raw-materials.

With the eventual emergence of India as a large creditor country and with the gradual development of her industries, this trend will probably be greatly accelerated during the post-war period. India will not need to export such large quanti-

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ties of raw-materials as she had to before the war, and with her developing industries she will also be less dependent on the imports of manufactured articles than she had been before. What is more important from the point of view of intra-Asian trade is that India may be able to take Japan's place in some of the Far Eastern markets. On the other hand, India's population has been growing rapidly and India has become 'nutrition' conscious. In all probability, therefore, India's imports of foodstuffs in future may increase and her

grow-more-food policies may lead to reduction of some of her exports of raw materials. India's post-war commercial position on the present reckoning therefore appears rather doubtful, though in all probability it will be stronger than in pre-war years.

The following table shows the percentage distribution of India's export trade in 1937-8.

| | Percentage of the Total Exports of merchandise in 1937-8 | |
|-----------------------------|--|-------|
| Raw Jute | .. | 8.1 |
| Jute Manufactures | .. | 16.1 |
| Raw Cotton | .. | 16.5 |
| Cotton Manufactures | .. | 5.1 |
| Tea | .. | 13.5 |
| Oilseeds | .. | 7.8 |
| Grains, Pulses and Flour | .. | 5.2 |
| Leather | .. | 4.1 |
| Metals and metal ores | .. | 3.4 |
| Hides and Skins | .. | 2.8 |
| Wools, raw and manufactured | .. | 2.1 |
| Others | .. | 15.3 |
| | | <hr/> |
| Total | .. | 100.0 |
| | | <hr/> |

In 1937-8, nearly 45 per cent. of India's total exports consisted of raw materials, the more important of which were raw jute 8.1 per cent., raw cotton 16.5 per cent., tea 13.5 per cent., oil-seeds 7.8 per cent., and hides and skins 2.8 per cent. The purchasing countries were largely European or American, although Japan absorbed over half of the exports of raw cotton.

As regards manufactured articles, on the other hand, India's exports (33 per cent. of the total) consisted of jute manufactures 16.1 per cent., cotton manufactures 5.1 per cent., leather 4.1 per cent. and other miscellaneous articles. The demand for jute manufactures was practically universal, but cotton manufactures were exported mostly to Asian countries, especially Burma and Ceylon.

Imports. The following table shows the composition of the import trade of India during 1937-8 :

| Percentage Distribution 1937-8 | |
|-----------------------------------|----------|
| Cotton and cotton piecegoods | .. 15.9 |
| Oils | .. 10.8 |
| Machinery and mill work | .. 9.9 |
| Metals and ores | .. 7.7 |
| Grain and cereals | .. 7.0 |
| Vehicles | .. 5.1 |
| Instruments and other appliances | .. 3.5 |
| Artificial silk | .. 2.8 |
| Wool, raw and manufactured | .. 2.4 |
| Paper and Pasteboard | .. 2.4 |
| Chemicals | .. 1.9 |
| Others | .. 30.6 |
| <hr/> | |
| Total | .. 100.0 |
| <hr/> | |

The imports of raw materials consisted of 23.5 per cent. of the total imports in 1937-8. The main articles of the imports of raw materials were oils (mostly mineral oils) about 10.8 per cent. of total imports, raw cotton of long-staple varieties, and other miscellaneous products.

Imported manufactured articles accounted for 62.0 per cent. of the total imports in 1937-8 and consisted of machinery and millwork (9.9 per cent. of total imports), cotton textiles about 10 per cent. of the total, iron and steel products 5 per cent., vehicles mostly automobiles 5 per cent., and paper and paste-board, chemicals, instruments, etc. It will be noticed that the imports, except for cotton textiles, were of a specialized nature in the sense that they were required more for industrial purposes than for direct consumption. As has already been stated, the bulk of these imports came from the U.K.

CEYLON

Ceylon, like India, was also a debtor country before World War II and had to maintain a large favourable balance of trade in merchandise.

Values in millions of dollars

| | | Imports | Exports | Balance of Trade |
|------|----|---------|---------|------------------|
| 1936 | .. | 80.4 | 91.7 | +11.3 |
| 1937 | .. | 90.6 | 115.6 | +25.0 |
| 1938 | .. | 86.2 | 96.4 | +10.2 |
| 1939 | .. | 80.6 | 100.3 | +19.7 |

In a recently published estimate of Ceylon's balance of payments, it has been stated that Ceylon's exports always exceeded her imports by about Rs. 50,000,000 a year (or about \$ 15.2 million current U.S. dollars). There was a considerable amount of foreign capital invested in the country, the sum so invested having been estimated at at least Rs. 620,000,000. The dividend and interest payable on this foreign capital was estimated at Rs. 62,000,000 a year or about 10 per cent. In addition to this, the remittances to Europe and expenditure in Europe of the Europeans in Ceylon were estimated at another Rs. 15,000,000 a year. All through the years 1931 to 1938, Ceylon had large favourable balances of trade; but so heavy were the Island's commitments abroad, that it ran a total unfavourable balance of payments amounting to Rs. 130 million during those seven years. This was met by the Island by large transfers of property from Ceylonese to non-Ceylonese hands.¹

Owing largely to the existence of these foreign investments and geographical advantages, Ceylon's foreign trade, like that of other colonial South-East Asian countries, is of a highly specialized nature:—

1. *The Ceylon Trade Journal*, September 1946, Pp. 235-8

Percentage Distribution of Ceylon's Foreign Trade

| | | Imports | | Domestic Exports | |
|--|----|---------|-------|------------------|-------|
| | | 1929 | 1938 | 1929 | 1938 |
| Food, Drinks and Tobacco | .. | 44.9 | 45.1 | 61.9 | 70.5 |
| Raw Materials and Articles mainly unmanufactured | .. | 15.5 | 14.3 | 37.2 | 28.8 |
| Articles wholly or mainly manufactured | .. | 39.6 | 39.7 | 1.0 | 0.6 |
| Total | .. | 100.0 | 100.0 | 100.0 | 100.0 |

It will be seen from the above table that 99 per cent. of Ceylon's exports were in food, drink and tobacco (tea mostly) and raw materials (rubber mainly) groups. On the import side, Ceylon is deficient in foodstuffs and must import rice. If rice is excluded, almost all the imports of Ceylon were of consumer goods.

Exports. The main articles of exports from Ceylon in 1939 were tea 62 per cent. (of the total), rubber 22.3 per cent. and cocoanuts and cocoanut oil 9 per cent. The other articles, though of minor importance, were coir, and coir products, arecanuts, spices, etc.

The bulk of Ceylon's exports were consigned to the United Kingdom which, on the average of 1938 and 1939, absorbed about 52 per cent. of Ceylon's total exports in 1938, the share of the United States being about 16.3 per cent.

Ceylon's export trade with Asian countries was of minor importance. About 6 per cent. of her exports went to India and consisted mostly of copra and cocoanut products, while those to other Asian countries were extremely small.

Imports. The bulk of Ceylon's imports consists of foodstuffs in which that Island is deficient. Nearly half of its

imports in 1938 consisted of rice, fish, sugar, animal foodstuffs, and milk products, etc.

Next to foodstuffs, the other important articles of import were cotton and silk piecegoods 9 per cent, rubber and rubber tyres 2·5 per cent., coal 2·5 per cent and mineral oils (including petrol, kerosene, etc.) about 10 per cent. Ceylon also imported large quantities of chemicals, fertilizers, iron and steel products.

BURMA

Burma has been a separate unit of the British Empire having no political connexion with India since April 1937. Burma's area is about 261,000 square miles and population about 15 million.

The following table shows the imports, exports and the balance of trade of Burma during 1937-8, 1938-9 and 1939-40 :

Burma's Balance of Trade

(Value in millions of dollars)

| Year | Imports | Exports | Balance of trade |
|---------|---------|---------|------------------|
| 1937-8 | .. 89 | 189 | +100 |
| 1938-9 | .. 75 | 174 | + 99 |
| 1939-40 | .. 81 | 177 | + 96 |

Burma is essentially an agricultural country and vast areas are covered by forests. Burma is also rich in mineral wealth. Her export trade, therefore, largely consists of agricultural products (mostly rice) and other raw materials, such as teakwood, kerosene, paraffin wax, tin ore, wolfram ore, copper, lead and zinc. The import trade, on the other hand, is in manufactured goods like cotton textiles, metals, machinery, fuel oil and chemicals and other related products.

The following table gives the percentage of composition of Burma's foreign trade in 1938-9:

| Imports | 1938-9 Percent | Exports | 1938-9 Percent |
|------------------------------------|-------------------|----------------------------------|-------------------|
| Food and tobacco .. | 17.6 | Agricultural products .. | 49.9 |
| Textiles (Cotton and Jute) .. | 31.4 | (mainly rice) | |
| Metals and machinery .. | 18.9 | Teakwood and other wood .. | 7.2 |
| Vegetable oilseeds and oils .. | 4.0 | Mineral oils and paraffin wax .. | 25.1 |
| Chemicals and Chemical products .. | 4.4 | Metals and Metal ores .. | 11.5 |
| Others .. | 23.7 | Others .. | 6.3 |
| Total .. | 100.0 | Total .. | 100.0 |

Because of geographical reasons and her past political connexions with India, more than half of Burma's external trade from 1937-8 to 1939-40 was with India. India imported mainly rice, mineral oils and teakwood which formed about 88 per cent. of the total exports of Burma to India.

On the import side, cotton and jute manufactures were the most important items and accounted for about 45 per cent. of the total imports into Burma from India.

The following figures show the percentage share of the principal countries in Burma's external trade in 1938-9:

Percentage distribution of Burma's trade with principal countries—1938-9

| | Imports Percent | Exports Percent |
|------------------------|--------------------|--------------------|
| India .. | 53.9 | 56.7 |
| U.K. .. | 18.8 | 13.2 |
| Japan .. | 6.8 | 1.9 |
| Straits Settlements .. | 3.1 | 5.9 |
| U.S.A. .. | 3.6 | 0.2 |

As has been mentioned above, India was by far the best customer as well as the best supplier of Burma. Next to India, the U.K. was the second important country in Burma's

foreign trade. In 1938-9 India supplied 53·9 per cent. of the Burmese needs from abroad and the U.K. 18·8 per cent. Similarly on the export side India purchased 56·7 per cent. of the total exports from Burma and the U.K. 13·2 per cent.

BRITISH MALAYA

The area of British Malaya (comprising Straits Settlements, Federated Malay States and non-Federated Malay States) is about 53,000 square miles with a population (in 1938) of 5·3 millions. The entire economy of Malaya revolves mainly round the production and export of rubber and tin, and to a lesser extent round its agricultural products, of which the principal are copra, arecanuts, pineapples and palm oil and cocoanut oil. The industries of Malaya are comparatively undeveloped and apart from agriculture, mining is the main occupation of the people. British Malaya is the world's leading producer of tin and has considerable deposits of coal, tungsten and gold.

Being a large debtor country, Malaya has had to maintain a favourable balance of merchandise and the following figures give the value of her trade :

Malaya's Balance of Trade

(Millions of gold dollars)

| | | Imports | Exports | Balance of trade |
|------|----|---------|---------|---------------------|
| 1921 | .. | 228 | 197 | — 31 |
| 1926 | .. | 598 | 718 | +120 |
| 1930 | .. | 405 | 377 | — 28 |
| 1932 | .. | 155 | 149 | — 6 |
| 1933 | .. | 139 | 155 | + 16 |
| 1934 | .. | 166 | 200 | + 34 |
| 1935 | .. | 163 | 198 | + 35 |
| 1936 | .. | 177 | 200 | + 23 |
| 1937 | .. | 239 | 310 | + 71 |
| 1938 | .. | 188 | 196 | + 8 |
| 1939 | .. | 192 | 229 | + 37 |

Composition of Trade in 1938

The following figures give the percentage composition of Malaya's import and export trade by main groups of commodities in 1938 :

| | | Imports for consumption | Exports of domestic produce |
|---|----|----------------------------|-----------------------------------|
| I. Animals, Food, Drink, Tobacco | .. | 30.2 | 1.3 |
| II. Raw Materials, mainly unmanufactured | .. | 22.5 | 53.4 |
| III. Manufactured mainly articles | .. | 47.3 | 34.8 |
| IV. Other articles | .. | — | 10.5 |
| Total | .. | 100.0 | 100.0 |

The main exports of Malaya in 1938 were rubber about 46 per cent. of the total, tin about 17 per cent., motor spirit about 6 per cent. and Kerosene, liquid fuel, pepper, spices, etc.

The main articles of import, on the other hand, were manufactured rubber articles, rice, motor spirit, machinery, and such other consumption goods.

The following figures of the percentage distribution of imports and exports of various countries in Malaya's trade show the importance of the U.K. in Malaya's import trade :

Percentage distribution of Malaya's Trade with Principal
Countries during 1938-9

| | | Imports for consumption | Exports of domestic produce |
|--------------------|----|----------------------------|-----------------------------------|
| U.K. | .. | 18.7 | 14.2 |
| U.S.A. | .. | 3.1 | 30.0 |
| India and Burma | .. | 7.5 | 4.3 |
| Japan | .. | 2.3 | 9.5 |
| Netherlands Indies | .. | 27.0 | 6.5 |
| Siam | .. | 15.7 | 2.8 |

The chief imports from the U.K. consisted of cotton textiles, machinery, electrical appliances, etc., and the share

of the U.K. in total imports in 1938 came upto 19 per cent. The U.K. had severe competition from Japan in respect of cotton piecegoods and also to a smaller extent from India. The large imports from Netherlands Indies and Siam consisted largely of rice.

On the export side, the U.S.A. was the chief purchaser of Malaya's goods, consisting largely of tin and rubber.

FRENCH INDO-CHINA

Comprising the Colony of Cochin-China and the protectorates of Cambodia, Annam, Tonkin and Laos, the area of French Indo-China is about 285,000 square miles and the population (in 1936) was estimated at 23 million.

The main articles of produce of the country are rice and tin. The country is also rich in forest products. The manufacturing industries chiefly consist of those for the preparation of rice and the manufacture, chiefly for local consumption, of cement, cotton and silk goods, glass, vegetable oils, leather, matches, etc.

Like other Asian countries, French Indo-China had considerable foreign investments from abroad and had to maintain a favourable balance of trade:

Indo-China's Balance of Trade

| Millions of gold dollars | | | | |
|--------------------------|----|---------|---------|------------------|
| | | Imports | Exports | Balance of Trade |
| 1921 | .. | 60 | 98 | +36 |
| 1928 | .. | 102 | 115 | +13 |
| 1932 | .. | 38 | 40 | + 2 |
| 1933 | .. | 36 | 40 | + 4 |
| 1934 | .. | 36 | 41 | + 5 |
| 1935 | .. | 36 | 51 | +15 |
| 1936 | .. | 35 | 60 | +25 |
| 1937 | .. | 37 | 60 | +23 |
| 1938 | .. | 33 | 48 | +15 |
| 1939 | .. | 36 | 53 | +17 |

Composition of Trade. It has already been mentioned in the last chapter that the economy of French Indo-China is deeply wedded to that of its 'mother country' of France. The following figures, while emphasizing this point, also bring out the smallness of French Indo-China's trade with other European countries and with America :—

Percentage Distribution of Indo-China's Trade
with Principal Countries in 1938

| | | Imports | Exports |
|--------------------|----|---------|---------|
| U.S.A. | .. | 5.0 | 9.0 |
| France | .. | 52.3 | 48.6 |
| Germany | .. | 0.9 | 1.4 |
| Hong Kong | .. | 7.4 | 9.9 |
| Japan | .. | 2.9 | 3.2 |
| Netherlands Indies | .. | 4.3 | 1.0 |
| French Colonies | .. | 3.4 | 5.9 |

Rice had always been the main article of export from French Indo-China before World War II, its share in total exports varying from 36 to 40 per cent. In addition it also exported a great deal of corn and fish which accounted for about 22 per cent. of total exports in 1938. The third most important article of export was rubber which accounted for about 20 per cent. of the total exports that year. The other articles of export were lacquer and lacquer goods, tin and tin ore, tungsten, coal, etc.

On the import side, the bulk of the imports of French Indo-China consists of the cheaper varieties of consumer goods. Cotton and silk textiles and piecegoods accounted for 25 per cent. of the total imports in 1938, miscellaneous articles of food (especially wines and wheat) accounted for another

10 per cent., petrol and liquid 5 per cent., metals and machinery 6 per cent., and fertilizers, chemicals, etc., about 6 per cent.

NETHERLANDS EAST INDIES

The Netherlands East Indies which comprises Java, Madoera, Sumatra, Dutch Borneo, Celebes and the rest of the archipelago has an area of 734,000 square miles and a population (1934) of about 65 millions.

The manufacturing industry of the Netherlands East Indies consists largely of the processing of local agricultural and mineral products for export, as also a few industries manufacturing cheaper varieties of consumer goods.

The following are the values of the foreign trade of the Netherlands East Indies :

Netherlands East Indies Balance of Trade
(Values in millions of gold dollars)

| | | Imports | Exports | Balance of Trade |
|------|----|---------|---------|---------------------|
| 1921 | .. | 362.7 | 400.0 | + 37.3 |
| 1928 | .. | 381.2 | 632.5 | +251.3 |
| 1932 | .. | 148.2 | 216.3 | + 68 1 |
| 1933 | .. | 127.9 | 187.2 | + 59.3 |
| 1934 | .. | 115.0 | 195.3 | + 80.3 |
| 1935 | .. | 110.0 | 178.4 | + 68.4 |
| 1936 | .. | 107.4 | 203.1 | + 95.7 |
| 1937 | .. | 159.5 | 308.8 | +149.3 |
| 1938 | .. | 155.5 | 213.0 | + 57.5 |
| 1939 | .. | 148.0 | 234.3 | + 85.4 |

The percentage distribution of the import and export trade of the Netherlands East Indies in 1937-8 was as follows :

Percentage Distribution of Netherlands East Indies Trade
with Principal Countries in 1937-8

| | | Imports | Exports |
|---------------------|----|---------|---------|
| USA | .. | 5.1 | 0.7 |
| Germany | .. | 6.3 | 1.6 |
| UK | .. | 12.1 | 1.6 |
| Hong Kong | .. | 7.4 | 12.2 |
| Japan | .. | 19.9 | 3.6 |
| Netherlands Indies | .. | 5.1 | 0.8 |
| Singapore | .. | 16.1 | 30.1 |
| Penang | .. | 10.6 | 28.2 |
| All other countries | .. | 17.4 | 21.2 |
| Total | .. | 100.0 | 100.0 |

The import trade of Netherlands East Indies is mainly composed of the cheaper varieties of consumer goods. The most important items of imports in 1937-8 were cotton piece-goods (about 25 per cent. of total imports) imported largely from Japan, but to a smaller extent also from Holland and Great Britain. The other articles of import were liquid fuel, hardware products, chemicals, books and drugs. Vehicles also were important and accounted for about 5 per cent. of total imports and machinery for about 10 per cent.

Apart from articles of food (spices, tea, sugar and tobacco), the most important articles of export were rubber

(about 30 per cent. of total exports) tin and tin ore, crude petroleum products and miscellaneous oilseeds.

SIAM

The area of Siam is about 198,000 sq. miles with a population (in 1937) of about 14.5 million.

Rice is the corner-stone of Siam's economy although it is also a large exporting country for rubber and tin. Apart from rice cultivation, mining is the main occupation of the people and such industries as existed before World War II were mainly engaged in processing or refining and in producing cheaper qualities of bazaar goods.

Like other Asian countries, Siam had also considerable debt obligations abroad and had to maintain a large export surplus abroad. The following table shows the value of its import and export trade :

Siam's Balance of Trade

(millions of gold dollars)

| | | Imports | Exports | Balance of Trade |
|------|----|---------|---------|---------------------|
| 1921 | .. | 61 | 32 | -29 |
| 1928 | .. | 82 | 109 | +27 |
| 1932 | .. | 28 | 40 | +12 |
| 1933 | .. | 27 | 38 | +11 |
| 1934 | .. | 27 | 43 | +16 |
| 1935 | .. | 29 | 39 | +10 |
| 1936 | .. | 29 | 47 | +18 |
| 1937 | .. | 30 | 44 | +14 |
| 1938 | .. | 33 | 45 | +12 |

The following table shows the percentage distribution of Siam's trade in 1938-9 with the various countries :

Percentage distribution of Siam's Trade with Principal Countries in 1938-9

| | Imports | Exports |
|--------------------|---------|---------|
| USA .. | 5.1 | 0.7 |
| Germany .. | 6.3 | 1.6 |
| UK .. | 12.1 | 1.6 |
| Hong Kong .. | 7.4 | 12.2 |
| Japan .. | 19.9 | 3.6 |
| Netherlands Indies | 5.0 | 0.8 |
| Singapore .. | 16.1 | 30.1 |
| Penang .. | 10.6 | 35.1 |

Exports. Rice is the main article of export from Siam which had, before World War II, generally an exportable surplus of about 2,000,000 tons. The value of rice exports was generally over half of the value of the total exports and these exports were consigned largely to the Asian countries of Malaya, Hong Kong, Penang and to a smaller extent to India and Ceylon. This fact explains the large proportion of Siam's exports to Asian countries.

The next in importance to rice among Siam's exports were tin and tin ore (about 25 per cent. of total) and rubber (about 15-20 per cent. of the total).

Imports. On the import side, the bulk of Siam's imports during pre-war years consisted of consumer goods. The chief among them were cotton textiles 18 per cent. of total imports, sugar 11 per cent., cotton year 3 per cent. pepper and pepper manufactures 3 per cent. and articles of food about 4 per cent.

The imports of kerosene, petrol, etc., in 1937-8 amounted to 10 per cent. of the total, iron and steel manufactures about 10 per cent., machinery and tools about 7 per cent. and vehicles about 3 per cent.

While the bulk of cotton piecegoods and cheaper varieties of consumer goods came from Japan, better qualities of consumer goods as also machinery, vehicles, etc., came from the U.K., Germany and the U.S.A.

IRAQ

Iraq's total area is about 116,000 sq. miles and the population (1931) about 4.5 millions. Iraq is one of the important oil producers in the world. Export of petroleum from Iraq began in 1934 on the completion of the Haifa-Tripoli pipeline, and within a few years it reached 4,000,000 tons—the pipeline's maximum capacity. In 1939, a project for increasing its capacity by 50 per cent was under consideration. Two other companies, the Mosul Oilfields Company and the Basra Development Company, associates of the Iraq Petroleum Company, had secured concessions for such areas of the country as were not covered by existing concessions. Exploratory drilling only had been done when war broke out. One Company, the Khaniquin Oil Company, a subsidiary of the Anglo-Iranian Oil Company, produces and refines oil for consumption in Iraq alone.

Iraq's pre-war external trade was characterized by large adverse trade balances. The following table brings this out for the three years 1937, 1938 and 1939 :

Iraq's Balance of Trade
(In thousand sterling pounds)

| Year | Imports | Exports | Balance of trade |
|------|---------|---------|------------------|
| 1937 | 9,565 | 5,785 | —3,780 |
| 1938 | 9,361 | 3,689 | —5,672 |
| 1939 | 8,156 | 3,759 | .. —4,397 |

Inasmuch as these export figures exclude oil products and the import figures probably include capital goods imported by foreign companies working concessions in Iraq, the above figures exaggerate the adverse trade balance; but even after we make due adjustments for these items, the nature of the balances does not alter.² Unfortunately it was not possible to take into consideration the value of oil in Iraq's export

2. *Review of Commercial conditions in Iraq*. February 1945, published for the Department of Overseas Trade by H.M.'s Stationery Office.

trade, as oil was exported by concessionaire companies and its value was not received in Iraq. The following figures of percentage composition of Iraq's export trade in 1938 do not, therefore, take into account the exports of petroleum :

| | | 1938 |
|---|----|----------|
| | | Per cent |
| Grain, pulses and flour (mainly barley) | .. | 32·4 |
| Dates | .. | 24·3 |
| Wool, raw | .. | 11·9 |
| Cotton, raw | .. | 6·0 |
| Live animals | .. | 5·1 |
| Hides and Skins | .. | 5·1 |
| Casings | .. | 3·0 |
| Others | .. | 12·2 |
| | | <hr/> |
| Total (excluding mineral oils) | .. | 100·0 |
| | | <hr/> |

The main changes in export trends in pre-war years were the steady expansion of shipments to the U.S.A. mostly of wool and dates, and the sudden growth of exports of cotton and cereals to Japan in the years immediately before the war.

The U.K. was Iraq's principal customer, taking about 25 per cent. of total exports; the U.S.A. came next taking roughly 19 per cent., and India third, taking about 10 per cent.

The table below gives percentage composition of Iraq's import trade :

| | | 1938 |
|---|----|----------|
| | | Per cent |
| Piecegoods (cotton, wool, silk and art silk) and clothing | .. | 20·2 |
| Iron and steel | .. | 11·7 |
| Machinery | .. | 21·3 |
| Tea and sugar | .. | 9·6 |
| Others | .. | 37·2 |
| | | <hr/> |
| Total | .. | 100·0 |
| | | <hr/> |

In view of Iraq's predominantly agricultural character and simple needs, textiles, of which 80 per cent. were cotton, were the most important group on the imports side. The U.K. had been in 1938 the principal supplier of Iraq, followed by Japan and the U.S.A.,

The following table gives the percentage share of principal countries in Iraq's foreign trade in 1938 :

Percentage distribution of Iraq's trade with
Principal countries in 1938

| | | Imports | Exports |
|------------------|----|---------|---------|
| U.K. | .. | 29.8 | 24.3 |
| Japan | .. | 14.9 | 10.8 |
| U.S.A. | .. | 8.5 | 16.2 |
| Germany | .. | 7.4 | 4.4 |
| India and Ceylon | .. | 6.9 | 8.1 |
| Persia | .. | 4.2 | 3.5 |

The United Kingdom supplies most of the total requirements of Iraq in iron and steel manufactures, boilers, machinery, mechanical apparatus, aircrafts and water crafts and lubricating oils. Japan supplied more than 50 per cent. of the textile (cotton, wool and silk) requirements. However, it is interesting to observe here that while Japan shipped to Iraq about 77 per cent. of Iraq's imports of cotton piecegoods and 4 per cent. of the imports of cotton twist and yarn, India supplied about 77 per cent. of total imports into Iraq of cotton twist and yarn and about 6 per cent. of the cotton piecegoods. India also supplied about a third of Iraq's imports of soap.

PERSIA

The greater part of Persia is a vast tableland, averaging about 3,000 to 5,000 feet in height, which is surrounded on all sides, except the east, by mountains. Persia's area is about 628,000 sq. miles and population about 15 millions.

Persia's official statistics are kept in two parts, the one relating to so-called 'commercial' imports and exports, the other to 'non-commercial' imports and exports. Statistics of 'commercial' imports do not include the values of those goods which are imported free of duty, viz., materials, etc., imported by the Anglo-Iranian Oil Company, the Societe Mahie Iran, Government Departments, banks, etc. Similarly in the case of Persia's 'commercial' exports, the statistics do not include

the values of oil exported to various countries by the Anglo-Iranian Oil Company or of fish exported to USSR by the Societe Mahie Iran.

The justification for excluding the values and quantities of imports and exports of the Anglo-Iranian Oil Company—and similar considerations presumably apply in the case of the Societe Mahie Iran—lies in the fact that the Company pays the Persian Government an annual lump sum as a condition of its concession and the Company's imports required for the efficient operation of the concession as well as the exports of oil products affect primarily the finances of the Company and only indirectly the finances of the Iranian Government.⁴

The following table shows Persia's 'commercial' and 'non-commercial' imports and exports and balances of trade during 1936-7, 1937-8 and 1938-9:

Persia's Balance of Trade

(Values in thousand sterling pounds)

| | 22 June 1936 to 21 June 1937 | 22 June 1937 to 21 June 1938 | 22 June 1938 to 21 March 1939* |
|---|---------------------------------------|---------------------------------------|---|
| 'Commercial' imports .. | 10,757 | 12,050 | 6,983 |
| 'Commercial' exports .. | 8,412 | 8,337 | 5,763 |
| 'Commercial' balance of trade .. | -2,345 | -3,713 | -1,220 |
| 'Non-Commercial' imports .. | 2,573 | 5,278 | 7,750 |
| 'Non-Commercial' exports .. | 19,497 | 23,462 | 16,293 |
| 'Non-Commercial' balance of trade .. | +16,924 | +18,184 | +8,543 |
| | | | *9 months |
| Total balance of trade .. | +14,579 | +14,471 | +7,323 |

4. For further details see *Review of Commercial Conditions in Persia*, April 1945, published for the Department of Overseas Trade by H.M.'s Stationery Office, London.

Whilst oil is her principal product and her largest export, Persia is essentially an agricultural country. With the exception of tea and sugar, Persia is self-supporting in essential foodstuffs. The principal concession, originally granted in 1901, is held by the Anglo-Iranian Oil Company Ltd. which is an important United Kingdom concern. The value of oil exported by the Company in the year June 1937—June 1938 was over £23 millions representing about threefourths of Persia's total exports. Persian carpets stand second to oil only on the export trade of the country, followed closely by raw cotton and raw wool.

The following tables give the percentage composition of Persia's import and export trade during the period from 22 June 1937 to 21 June 1938 :

| Imports ⁵ | | Exports ⁶ | |
|---------------------------|----------|--------------------------|----------|
| Per cent | | Per cent | |
| Cotton piecegoods | .. 18.8 | Mineral oils (exports of | |
| Metals and metal goods | .. 19.4 | Anglo-Iranian Oil | |
| Machinery, vehicles loco- | | Company) | .. 73.3 |
| motives, wagons and | | Woollen carpets | .. 4.1 |
| carriages and parts and | | Raw Cotton | .. 3.5 |
| tubes and tyres | .. 19.9 | Raw wool | .. 2.6 |
| Tea and Sugar | .. 16.6 | Others | .. 16.5 |
| Others | .. 25.3 | | |
| Total | .. 100.0 | Total | .. 100.0 |

Persia is largely self-supporting in foodstuffs and her import trade is composed mainly of manufactured articles. Her exports, on the other hand, are almost entirely in raw materials. The above figures show that on the import side 75 per cent. of her trade is divided more or less evenly among cotton piecegoods, machinery, vehicles, locomotives etc., and tea and sugar. On the export side, oil exports represent about 75 per cent. of her trade. Of the rest, about one-fourth is represented by raw cotton and raw wool.

5. Excludes imports entered duty-free into Persia.

6. Includes exports of Anglo-Iranian Oil Company and Mahle Iran.

The following figures show the percentage share of some important countries in Persia's foreign trade during 1937-8 :

| | Commercial only | Commercial only | All exports including those of Anglo-Iranian Oil Co., and 'Mahie Iran' |
|--------------|--------------------|--------------------|--|
| | Imports | Exports | Exports |
| U.K. | .. 8.2 | 6.2 | 26.1 |
| U.S.A. | .. 8.6 | 8.2 | 2.2 |
| Germany | .. 25.5 | 29.6 | 8.5 |
| U.S.S.R. | .. 32.5 | 35.0 | 9.7 |
| India | .. 7.6 | 4.7 | 8.7 |
| South Africa | .. — | — | 8.1 |
| Egypt | .. — | 0.5 | 6.3 |
| Aden | .. — | — | 5.4 |
| Italy | .. — | — | 3.7 |
| Ceylon | .. — | 1.7 | 3.4 |
| Others | .. 17.6 | 14.1 | 17.9 |
| Total | .. 100.0 | 100.1 | 100.1 |

The above table shows that if 'non-commercial' exports—which are made up entirely of oil—are excluded, Russia and Germany share between them more than half of the 'Commercial' exports, the shares of the U.S.A., the U.K. and India in 'commercial' export being of comparatively minor importance. If, however, we take into consideration the value of oil exports also, Persia's export trade becomes more widely distributed among other countries of the world. Among the Asian purchasers of Persia's goods, India stands first, buying mineral oils, woollen carpets, almonds and raisins.

CHINA

The territory of the Republic of China, which includes Sinkiang (Chinese Turkistan), Mongolia, Tibet and Manchuria, has an area of about 4.5 million sq. miles and a popula-

tion of about 470 millions. About 74 per cent. of the total population is agricultural. Most of the cultivated land is used for food production, the principal non-food crops being cotton and tobacco.

China is prominent in the world production of antimony, tin, tungsten and manganese ores and produces also coal, crude oil, mercury, etc.

The Chinese trade statistics relate only to trade under the control of the Maritime Customs, namely, goods carried in vessels of foreign type or other vessels especially licensed for foreign trade by the Maritime Customs and goods passing through a few inland custom houses. The trade of Hong Kong is not included, but trade of the mainland of China with Hong Kong is included. Manchurian trade has not been included in the Chinese Maritime Customs Returns since June 1932. Subject to these qualifications, the following table shows China's imports and exports in merchandise and the balance of trade for 1935, 1936 and 1937.⁷

China's Balance of Trade

(Values in thousand Standard Dollars)

| Years | Imports | Exports | Balance of Trade |
|-------|------------|---------|------------------|
| 1935 | .. 919,211 | 576,298 | —342,913 |
| 1936 | .. 941,545 | 708,791 | —234,754 |
| 1937 | .. 953,386 | 838,256 | —115,130 |

China is an industrially undeveloped country, about three-fourths of her population depending entirely on agriculture. While the important items in her import trade are food and tobacco and manufactured articles like textiles (cotton and wool) and machinery and iron and steel manufactures, those prominent on the export side are mostly raw materials, e.g., food and tobacco oilseeds (mostly soyabeans) and hides and skins and bristles and feathers. China has a large cottage

7. *International Trade Statistics*, League of Nations, 1937.

industry in silk and embroidery and, therefore, she exports also silk piecegoods, silk and other embroidery.

The following table gives the percentage composition of China's export and import trade (including Manchuria) by main groups of articles in 1936:⁸

| Net Imports in 1936 | | Net Exports in 1936 | |
|--|--------------------------------------|---|--------------------------------------|
| Groups | Percentage to total Imports | Groups | Percentage to total Exports |
| 1. Food and tobacco .. | 13.1 | 1. Food and tobacco .. | 17.7 |
| 2. Textiles (cotton and wool) .. | 18.7 | 2. Tea .. | 2.5 |
| 3. Paper and manufactures newsprint and old newspapers, etc. .. | 5.0 | 3. Textiles—mainly silk piecegoods and silk and other embroidery and cotton raw and waste and silk raw and waste .. | 13.3 |
| 4. Machinery of all kinds, locomotives, railway wagons and iron and steel heavy manufactures and brass and copper .. | 23.9 | 4. Hides and skins bristles and feathers, etc. .. | 6.6 |
| 5. Coal, mineral oil, etc. .. | 7.5 | 5. Oilseeds—mainly soyabeans .. | 19.7 |
| 6. Chemicals, paints and pigments and varnishes .. | 6.5 | 6. Oils—mainly Tung wood oil .. | 11.8 |
| 7. Wood and Timber .. | 2.7 | 7. Metals and metal ores .. | 5.5 |
| 8. Others .. | 23.1 | Others .. | 22.9 |
| Total .. | 100.0 | Total .. | 100.0 |

8. Compiled from *The Foreign Commerce Year-Book*, U.S. Department of Commerce, Bureau of Foreign and Domestic Commerce, 1939, Pp. 244-9.

The above figures show that machinery and iron and steel manufactures formed the largest item among Chinese imports, accounting for about one-fourth of her total imports, followed by textiles and food and tobacco each covering 18·7 per cent. and 13·7 per cent. respectively of her total import trade. Looking at her export trade, on the other hand, we find that oilseeds (mainly soyabeans) stood first and accounted for 19·7 per cent. of China's total exports. Food and tobacco followed closely and formed 17·7 per cent. of her total export trade. Textiles (mainly silk piecegoods and silk and other embroidery), covering about 13·3 per cent. of the export trade came third and oil (mostly tung oil) came next with 11·8 per cent.

The following figures show the percentage share of principal countries in China's export and import trade in 1936 :⁹

| | | China proper | | China and Manchuria | |
|-------------------------|----|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | | Percentage of total imports | Percentage of total exports | Percentage of total imports | Percentage of total exports |
| U.S.A. | .. | 19·6 | 26·5 | 13·3 | 17·4 |
| Germany | .. | 15·9 | 5·5 | 10·4 | 7·5 |
| United Kingdom | .. | 11·7 | 9·2 | 7·5 | 7·8 |
| India and Burma | .. | 2·6 | 2·6 | 3·3 | 1·8 |
| Hong Kong ¹⁰ | .. | 1·9 | 15·1 | 1·4 | 9·9 |
| Japan | .. | 16·3 | 14·5 | 42·5 ¹¹ | 28·5 ¹¹ |
| Chosen | .. | 0·3 | 1·4 | 1·9 | 4·9 |

The above figures show that if we consider China and Manchuria together, Japan was the principal supplier as well

9. Compiled from *The Foreign Commerce Year-Book*, U.S. Department of Commerce, Bureau of Foreign and Domestic Commerce, 1939, Pp. 244-9.

10. Transit port only.

11. Including Formosa.

as the principal customer of China, the U.S.A. being second and Germany and the U.K. third and fourth. However, when we consider China proper, it was the U.S.A. which assumed the role of the principal supplier and customer of China, Japan being relegated to the second position. The U.S.A. purchased tungoil, silk and embroidery, bristles and sheep's wool from China and supplied to her iron and steel manufactures, machinery, mineral oils and tobacco-leaf.

JAPAN

Being a country, small in area and scanty in raw materials¹² it was but logical that Japan should have turned to foreign trade as a means of industrial expansion. Throughout the past seventy years or so, Japan's foreign trade expanded by leaps and bounds as the following figures show:

Value of Foreign Trade
(Millions of yen)

| | Exports | Imports | Total |
|------|----------|---------|-------|
| 1890 | .. 70 | 74 | 144 |
| 1900 | .. 255 | 283 | 538 |
| 1910 | .. 549 | 623 | 1,172 |
| 1920 | .. 1,804 | 1,693 | 3,497 |
| 1930 | .. 1,519 | 1,680 | 3,199 |
| 1937 | .. 3,319 | 3,955 | 6,274 |

But the foreign trade of Japan has been characterized by an adverse balance of trade throughout most of its recent economic history. Since the beginning of this century, the balance has been in Japan's favour for only seven years, of which four years were accounted for by the post-war boom after World War I.¹³ With the foreign capital markets virtually closed to her, Japan had to rely on the income secured

12. See earlier Chapter II.

13. *Japan and Manchukuo Year-Book*, p. 458.

from exports of goods and services in order to pay for the essential raw materials in which, as mentioned earlier, she is so greatly deficient. The fact that her income from foreign exports during the nineteen-thirties was not sufficient to cover all her foreign purchases led her to resort to stringent foreign exchange controls. The Japanese pre-World War II system of exchange control thus established a 'yen bloc' of countries which was so segregated from the rest of the world as to provide an almost monopolized market for Japanese producers. Japanese military conquests during the nineteen-thirties resulted in a steady-expansion of this area and Japan's trade by 1938 was largely carried on with either the 'yen bloc' countries or with the neighbouring Asian countries, the trade with 'non-yen bloc' Asian countries being more profitable than with more distant countries, owing to Japan's expanding merchant marine. The following table brings out the adverse balance of trade of Japan in merchandise :

Japan's Balance of Trade

(Values in millions of gold dollars)

| | Imports | Exports | Balance of Trade |
|------|----------|---------|------------------|
| 1901 | .. 168 | 141 | — 27 |
| 1920 | .. 1,177 | 981 | —196 |
| 1928 | .. 1,019 | 915 | —104 |
| 1932 | .. 402 | 396 | — 6 |
| 1933 | .. 386 | 374 | — 12 |
| 1934 | .. 404 | 385 | — 19 |
| 1935 | .. 421 | 428 | + 5 |
| 1936 | .. 474 | 461 | — 13 |
| 1937 | .. 643 | 540 | —103 |
| 1938 | .. 448 | 452 | + 4 |
| 1939 | .. 542 | 541 | — 1 |

It must be noted, however, that Japan had the third largest merchant marine of the world and her income from shipping services was considerable. She had also a large network of commercial services abroad which brought her considerable net income.¹⁴

The following table giving distribution of Japan's trade with other countries, which gives greater details than the similar table in Chapter II, shows how divorced Japanese pre-war trade system had been from the U.K. and Europe and how deeply wedded it was to the 'yen bloc' and other Asian countries :

Percentage Distribution of Japan's Trade with
Principal Countries in 1938

| | | Imports | Exports |
|--------------------------|----|---------|---------|
| U.S.A. | .. | 34.415 | 16.215 |
| Germany and Australia | .. | 5.4 | 1.2 |
| U.K. | .. | 0.8 | 5.0 |
| Europe, other | .. | 4.4 | 3.5 |
| China | .. | 21.3 | 23.4 |
| India | .. | 6.8 | 7.0 |
| Asia, other | .. | 29.8 | 31.5 |
| Australia | .. | 2.6 | 2.6 |

14. See Chapter IV, Pp. 102-55

15. The trade with the U.S.A. consisted largely of raw cotton on the import side and raw silk on the export side. If these items are excluded, the trade even with the U.S.A. was very small.

Another characteristic of Japan's trade, which she shared with India, was the gradual transformation of that country from the position of an exporter of raw materials to that of an exporter of finished products, with the reverse trend as regards her position as an importer. In 1937, Japan's exports of finished products accounted for 61 per cent. of her total exports, whereas in 1913 they were only 29 per cent. of the total. On the side of imports, on the other hand, raw materials and semi-processed commodities claimed 82 per cent. of her total imports in 1937 whereas their share in 1913 was 66 per cent. The following table shows the changes in the composition of the trade of Japan (Proper) in recent years :

| | Percentage of Exports | | Percentage of Imports | |
|------------------------------|-----------------------|--------------------|-----------------------|-------|
| | 1929 | 1937 | 1929 | 1937 |
| I. Food and Drink . | 7.6 | 7.9 | 12.2 | 6.6 |
| II. Raw Materials .. | 4.3 | 4.2 | 55.2 | 52.8 |
| III. Semi-processed goods .. | 42.1 | 26.0 ¹⁶ | 16.5 | 29.0 |
| IV. Finished goods | 44.5 | 60.6 | 15.6 | 11.1 |
| V. Miscellaneous .. | 1.5 | 1.3 | 0.5 | 0.5 |
| Total .. | 100.0 | 100.0 | 100.0 | 100.0 |

Imports. The key to Japan's import trade lay in the fact that a large industrialized and exporting country, Japan was deficient in raw materials and had *also* an adverse balance of trade. She had, therefore, to restrict her imports as much as possible and to restrict her purchases from Asian countries as far as possible.

16. Over 13 per cent of which was raw silk.

The following table gives a brief picture of Japan's import trade in 1937 :

| | Percentage of total Imports |
|--|--------------------------------|
| I. <i>Food, Drink and Tobacco</i> | |
| Wheat, Beans and Peas | .. 4.2 |
| | <hr/> |
| Total for group | .. 6.7 |
| | <hr/> |
| II. <i>Raw Materials</i> | |
| Crude mineral oils | .. 6.1 (in 1936) |
| Crude India rubber | .. 2.6 |
| Raw Cotton | .. 22.5 |
| Raw Wool, Hemp, and other fibres | .. 9.0 |
| Total for all Crude Raw Materials | .. 52.7 |
| Hides, Skins and Leather | .. 1.4 |
| Pulp for paper making | .. 3.1 |
| Pig Iron, Rail Plate, and other iron | .. 6.9 (in 1936) |
| Other Metals and Ores | .. 4.0 (in 1936) |
| All Processed Raw Materials for further manufacture | .. 27.7 |
| Total Group II | .. 80.4 |
| | <hr/> |
| III. <i>Articles Wholly Manufactured</i> | |
| Metal and Woodmaking Machinery | .. 11.1 |
| | <hr/> |
| Total for Group III | .. 12.9 |
| | <hr/> |

Food, Drink and Tobacco (6.7 per cent.). Contrary to general belief, Japan was fairly self-sufficient in food supply. This was achieved by policies of agricultural expansion and strict control over the prices and movements of food even during the pre-World War II period. Food and Drink, therefore, accounted for only 7 per cent. of the total imports in 1937 and the main imported articles were wheat and beans and peas.

Raw materials and semi-manufactured articles (80.4 per cent.). For her expanding industries and export trade, Japan had to import large quantities of raw materials which accounted for 80.4 per cent. of total imports in 1937.

Raw cotton was the most important article of import in this group and accounted for 22·5 of the total in 1937. Nearly half of these imports came from India, the other half coming from the U.S.A. and Egypt. Japan also imported considerable quantities of raw wool, mostly from Australia.

Japan was also deficient in *mineral oils* and their imports in 1936 accounted for nearly 15 per cent. of the total. Bulk of the mineral oil in processed and finished form came from the U.S.A. while crude oil accounting for 6 per cent. of total imports came from neighbouring Asian countries.

Metals and ores of all kind played an important part in the imports of Japan. Pig iron, rail plate and other iron and steel products accounted for nearly 7 per cent. of total imports. The other imported metals and ores were tin, zinc, lead, aluminium, etc. Coal was also imported on a fairly large scale. As in the case of mineral oils, most of the finished products came from the U.S.A. and to a smaller extent from Germany and Australia, while the crude ores or unmanufactured metals came from Asian countries.

Articles wholly manufactured (12·9 per cent.). Imports of *machinery*, mostly from the U.S.A. and Germany accounted for nearly 11 per cent. of total imports in 1937. The other imports, though relatively of much less importance, were of vehicles, vegetable oils, rubber manufactures, etc.

Exports. The following figures show the main exports from Japan in 1937 :

| | Percentage of total |
|--|---------------------|
| I. <i>Food, Drink and Tobacco</i> | |
| Wheat flour | .. 1·0 |
| Tea | . 0·7 |
| | — |
| Group Total | .. 9·5 |
| | — |
| II. <i>Raw Materials</i> | |
| Mostly wood, certain kinds of coal, waste silk, etc. | |
| | — |
| Group Total | .. 4·2 |
| | — |

III. *Manufactures for further use in manufacturing*

| | | |
|----------------------|----|-------|
| Vegetable fatty oils | .. | 0.8 |
| Raw Silk | .. | 13.0 |
| Cotton yarn | .. | 1.8 |
| Artificial silk | .. | 1.4 |
| | | <hr/> |
| Group Total | .. | 26.0 |
| | | <hr/> |

IV. *Articles wholly manufactured*

| | | |
|------------------------------|----|-------|
| Silk tissues | .. | 2.3 |
| Artificial silk tissues | .. | 5.0 |
| Cotton tissues | .. | 18.3 |
| Woollen tissues | .. | 1.6 |
| Knitted tissues | .. | 1.9 |
| Hats, Cape and Bonnets | .. | 0.8 |
| Paper | .. | 1.2 |
| Glass and glass manufactures | .. | 1.1 |
| Iron and Steel ware | .. | 1.7 |
| Potteries | .. | 1.7 |
| Medicines, Drugs etc. | .. | 3.5 |
| Toys | .. | 1.3 |
| | | <hr/> |
| Group Total | .. | 60.7 |
| | | <hr/> |

Food, Drink and Tobacco (9.5 per cent.). Japan had what may be called a luxury export trade in articles of food. Most of the articles, exported were processed foodstuffs, such as biscuits, refined sugars, fruit preserves, pickles, etc. This trade was fairly wide-spread, but the major share of it went to the U.S.A., the U.K. and other industrialized countries with high standards of living.

Cotton Tissue (18.3 per cent) formed one of the most important articles of export from Japan, being 18.3 per cent. of the total. Her trade in cotton tissues was world-wide, but was especially big in countries with a low standard of living where coarse but cheap cloth was in demand. India was the largest single purchaser absorbing about 14 per cent. of Japan's total exports of cotton tissues, while Netherlands East Indies and Manchukuo absorbed about 13 per cent. each. The other large purchasers were the countries of Asia, Africa and the Middle East.

Artificial Silk Tissues (5.0 per cent.). Most of the artificial silk tissues were absorbed by countries with comparatively low standards of living. The most important purchasers of Japanese silk tissues were, however, India, China and Netherlands East Indies.

Other tissues (5.8 per cent.). In addition to cotton and silk tissues, Japan had a considerable export trade in other tissues which accounted for 5.8 per cent. of the total exports in 1937. The main markets for these were again India, China, Netherlands East Indies and the other countries of Asia, Africa and the Middle East.

Raw Silk (13 per cent.). The one main article which Japan exported in an unfinished form of raw silk. Over 80 per cent of the total exports were to the U. S. A. in 1936 and 1937, the other important purchasers being Great Britain and France. The share of Asian or African countries in this rather expensive and luxury article was very small indeed.

Miscellaneous Articles (49 per cent.). The above main articles accounted only for 51 per cent. of Japan's total exports. The remaining exports were of a large number of the cheaper varieties of consumer goods with the best markets in the poorer countries of Asia and Africa. For example Japan exported a large quantity of *hats and caps*, her exports being mostly to Asian countries. About 2 per cent. of her exports were of *potteries* and another 1.3 per cent. in toys in which Japan had developed good industries. The more expensive qualities went to the U. S. A. but the cheaper varieties were all absorbed by Asian countries. Most of *hardware* products went to China, Manchukuo and other Asian countries. Of the other miscellaneous articles of export were *umbrellas* and *parasols*, cheap kerosene *lanterns*, *glass* and *glassware*, *buttons*, *hat-making* materials, cheaper qualities of *brassware*, *tin utensils*, etc.

CHAPTER VI

THE FUTURE OF ASIA'S TRADE

The pre-war structure of the foreign trade of Asia and the Asian countries has now been analysed in some detail and that analysis has shown many signs of backwardness. The total volume of Asia's foreign trade, as compared with the total volume of world trade, has always been small and its *per capita* value has been a fraction of the *per capita* values of the trades of industrialized countries. The smallness of Asia's foreign trade is both an indication of her present economic backwardness and of the advantages of division of labour which are yet to accrue to the world.

The composition of Asia's foreign trade has also revealed many signs of arrested economic growth. The exports of all the Asian countries, except those of Japan, have been mainly in crude or semi-processed raw materials, while the imports have been mainly in articles manufactured for ready consumption. Furthermore, even these imports of manufactured articles and exports of raw materials are of a highly specialized nature and the bulk of the foreign trade is concentrated in four or five articles.¹ Between 25 to 30 per cent. of the imports of Asian countries in pre-war years were of (i) rice, (ii) sugar, (iii) textiles and (iv) textile-making materials. The imports of these articles of subsistence show a lack of self-sufficiency which leads not only to the imports of all kinds of manufactured articles but also to those of food-stuffs and clothing required for mere subsistence. Similarly, an analysis of the exports of (i) rice, (ii) sugar, (iii) tea, (iv) raw rubber, (v) tin and tin ore, (vi) manufactured textiles and (vii) textile-making materials shows that these seven articles taken together account for over 70 per cent. of the exports of five Asian countries, for 66 per cent. of the exports of one country and for over 35 per cent. of the remaining Asian countries. This excessive export specialization imposes many handicaps on the rapid and diversified

1. Chapter IV, pp. 78-85.

development of the countries concerned and is a danger to the future expansion of world trade as a whole.

In spite of their excessive dependence on exports and in spite of the highly specialized nature of their exports, the Asian countries have been greatly handicapped even in their trade in raw materials. Since, during the pre-war years, none of them had any developed industries of their own, they could never compete with foreign industries in export markets. Furthermore, Japan's aggressive policies had driven Asian countries out of the Asian markets as well. Their domestic economies had in the result become entirely dependent on the volume of raw materials they could export and the prices which those raw materials fetched. Their economic development had thus to proceed along narrow specialized lines, with the result that the Asian countries had failed during the pre-war period to obtain the full advantage of the technological progress which the industrialized countries had been making. Their national incomes and living standards therefore continued to remain low in spite of the great improvements in the West and Asia offered considerable resistance to the economic advancement of the world as a whole, because the purchasing power of her masses was not sufficient to keep the wheels of world trade and industry moving at full speed.

The evils of this excessive dependence on raw materials were further aggravated by the fact that, in spite of her overwhelming weight in world production, Asia had no organization to stabilize or strengthen her own bargaining power in world markets. Her position became all the worse in periods of falling prices and since her exports were in only a few commodities, every dislocation in those particular export markets led to a much greater dislocation in her domestic activity. Asian countries were furthermore deprived of even the profits of the processing industries.

Of all the Asian countries, Japan had however established a unique position for herself. Her import trade was largely in raw materials in which she was greatly deficient and her export trade in cheap manufactured articles suitable for direct

consumption in countries with low income standards. In and by itself, there was nothing wrong in Japan's commercial policy of importing raw materials and exporting cheap consumer goods. This policy did in fact bring many benefits to Asia and it has been argued in a previous chapter that the industrial strength of Japan was an advantage to Asia.² But during the nineteen-thirties, Japan unfortunately assumed the same kind of commercial militancy which she was later to assume in the military field. Her commercial aggression thus failed to bring permanent benefit to anybody and there was no appreciable improvement even in the living standards of her own people. Her commercial development therefore added little to the prosperity of the world and such commercial and military strength as she acquired was only to result in her own devastation.

Furthermore, in spite of their contiguity and cultural relationships, the trade between the Asian countries themselves was never properly developed. The commercial ties among them were loose and no country considered the development of intra-Asian trade as an objective of her commercial policy.

In spite of its unorganized character, the volume of intra-Asian trade has always been considerable. Over 40 per cent. of Asia's total foreign trade has, during the pre-war period, been intra-Asian and this has been very largely due to Japan's dominant commercial position in Asia. Japan accounted for over 20 per cent. of the total value of intra-Asian *import* trade and for nearly 33 per cent. of the intra-Asian *export* trade. Analysed further, it would be seen that if Japan were excluded the bulk of the intra-Asian trade consisted of articles of subsistence, such as, rice, sugar, textiles and textile-making materials.

The foreign trade of the Asian countries has also been of a highly competitive nature both in respect of imports and exports. Competition from the industrialized countries of

2. Chapter IV, pp. 102-6.

Europe and America has handicapped their domestic industries and all the Asian countries have always been directly dependent on the factory products of the West. On the export side, Asian countries have not been able to utilize a fraction of their raw materials and have competed amongst themselves in the matter of their exports. In short, the pre-war structure of Asia's foreign trade had assumed a peculiar character. Asian trade had become highly complementary with the trades of Europe and North America and had, at the same time, become extremely competitive as among the Asian countries themselves. This, no doubt, brought many of the advantages of division of labour on a world basis to Asia as also to non-Asian countries; but it also tended to perpetuate the industrial backwardness of Asia and her dangerous specialization along three or four lines of economic activity.

Here again the position of Japan was unique. She was a large importer of raw materials and an exporter of the cheaper varieties of consumer goods. Her trade with the Asian countries was highly complementary. In addition, her balance of trade position was always difficult and coupled with this was her pressing need to import large quantities of raw materials as a condition precedent to her ability to export. Japan had also to conserve all her foreign exchange and her total commercial and exchange policy was to confine her trade activity within what was called the *yen bloc*. It has already been noticed that practically the whole of Japan's foreign trade was with her Asian neighbours, except for her exports of silk and the imports of raw cotton and specialized industrial products.³

CHANGES BROUGHT ABOUT BY THE WAR

But the war has completely changed this picture. Large parts of Asia have been subjected to the ravages of war and many of them have been completely devastated. For example,

3. Chapter III, pp. 52-4.

the loss of rubber in Malaya has been estimated at 93 million U.S. dollars and of tin at 35 millions. In the Philippines the damage is estimated at 8,000 million dollars and in Burma six million acres of rice land, nearly half of the pre-war acreage, have gone out of cultivation. In the Netherlands Indies the damage after the war was estimated at 3,000 million dollars and that which occurred in the present hostilities must have been much greater.⁴

Industries and earning capacities of the Asian countries have also suffered much decline and there are large arrears of equipment, normal replacement, transport and other services to be made up as soon as practicable.

In addition to these changes, a change of the utmost economic importance has already occurred. Japan has been defeated and one of the greatest threats to the industrial development of other Asian countries has been removed. While this is somewhat to the benefit of Asia, this has also deprived Asia of the many commercial services which Japan offered before the war and the markets for many of the raw materials which her expanding industries required.

In spite of her suffering and sacrifices, India has emerged out of the war relatively stronger than other Asian countries. She is no longer the debtor country she had been throughout her past connexions with the British Empire; her productive capacity has in the main gone up and the national atmosphere for industrial expansion, relatively to other Asian countries, is more favourable.⁵ With the elimination of Japan as the dominant exporter in the Far East, and with the unlimited demand of devastated Europe which Britain and the U.S.A. are being called upon to meet, India has a very bright future in Asian markets. She has no doubt her own domestic difficulties and the whole of the sub-continent is faced with a distressing food deficit. It is to be hoped however that these difficulties are temporary and India, of all the Asian countries,

4. A message from the Reuters New York, dated 14 February 1947.

5. This was written in February 1947. Since then India has been partitioned; but this does not change the argument in any way.

will do everything in her power to take the former place of Japan, not only on narrow commercial grounds but on the higher and more ethical considerations of helping to remove the great shortages which now prevail in the neighbouring countries and to strengthen the cultural and commercial ties which exist between them.

Politically, also, there is a new awakening of national consciousness over the length and breadth of the continent. India has already become independent within the British Empire and may, if she likes, become completely independent by June 1948. China is no longer hampered by extra-territoriality and unequal treaties; and Indo-China, the Netherlands Indies, Burma, Malaya and Ceylon are all fighting valiantly for their freedom and will surely acquire it within the next few years. As has been stated earlier, freedom to Asian people means the freedom to control and regulate their national economies for the purpose of their own economic development. With freedom therefore Asia will soon have her own large-scale industries and her commercial policy will be designed and adapted mainly for the achievement of industrialization.

PROPOSAL FOR A CENTRAL ASIAN COMMERCIAL CORPORATION

These aspirations will not however be achieved without some Asian organization charged with the co-ordination of the economic development of Asia as a whole.

The war which has upset the former trade alignments and which has eliminated the danger of Japanese competition has furnished an excellent opportunity for the re-orientation of the traditional Asian commercial policies which were based on colonial exploitation and industrial backwardness. Asia is also now free to take her own decisions and is probably stronger than ever before to make herself heard in the commercial policies of the world. Asia's foreign trade must no longer serve as a slave to the industries of the world, but must become the handmaid of her own economic development. Her foreign trade must also serve as a means of fostering friendly relations with the rest of the world and not, as hitherto, as a

means of developing the industries of metropolitan or Empire powers. And, in every case, her foreign trade policy must ultimately benefit the millions of her rural workers and peasants.

Chapter I of this Paper has already shown how the pattern of Asian industrialization must take a form different from that which it has assumed in the West. Unplanned and unbalanced industrialization will in the long run only create new evils to replace the old, unless every attempt is made from the beginning to achieve a proper synthesis between the special conditions prevailing in Asia and the new forces which rapid industrialization will introduce. It has therefore been argued that the development of rural handicrafts is an essential requirement of the balanced development of Asia and that an Intra-Asian Handicrafts Corporation is necessary for a proper development of handicrafts and a freer trade in them.

Similarly, it has been suggested in Chapter II that the establishment of an Intra-Asian Commodity Corporation is essential for the orderly production and distribution of Asia's raw materials. A special branch of this Corporation will attempt to supervise the acquisition of capital equipment for Asian industries and eliminate the evils of competitive bidding. Another branch, as stated in Chapter IV, will examine the problem of foreign investments and their regulation in the interests of both the lender and the borrower.

The work of these specialized organizations must however be related to the bigger commercial policies which Asia as a whole must adopt in future. It is therefore suggested that a Central Asian Commercial Corporation, of which the other organizations will be specialized agencies, is also essential. This Corporation will advise individual Asian countries as to the best lines along which national development could proceed in the interests of Asia as a whole and the manner in which national policies could be related to the bigger world and Pan-Asian policies.

A very rough composition of the various organizations proposed can be shown diagrammatically as follows :

CENTRAL ASIAN COMMERCIAL CORPORATION

Pan-Asian Policies.

- (a) Will supervise and shape general Pan-Asian Policies.
- (b) Will pool commercial information.
- (c) Will help lay down Asian commercial and economic policies in relation to world policies.
- (d) Will help co-ordinate and promote work of specialized branches.
- (e) Will help establish contacts between business, commercial and State organizations.

INTRA-ASIAN HANDICRAFTS CORPORATION

- (i) Will achieve free trade conditions in handicraft products.
- (ii) Will help popularize and standardize national handicrafts in other countries.
- (iii) Will help provide technical and commercial information.

INTRA-ASIAN COMMODITY ORGANIZATION with two Branches

- (i) Will help maintain and stabilize the raw materials trade, and help to make it an instrument of future industrial development.
- (ii) Will generally promote by advice and interchange of technical information the best means of maximizing income from foreign trade.
- (iii) Will generally help to shape national policies.
- (iv) Will help towards commercial reconstruction of devastated countries or countries in commercial difficulty.

Branch A—Capital Equipment

- (i) Will estimate national needs.
- (ii) Will screen the less important needs for equitable inter-national distribution.
- (iii) Will attempt to increase and conserve world supplies.
- (iv) Will attempt to standardize contracts, prices, dates of delivery, etc., through co-operation between consuming and producing countries.

Branch B—Foreign Investments

- (i) Will examine the present structure of foreign investment in each country and the effects of foreign debt on national development.
- (ii) Will standardize the patterns of lending and borrowing and ensure that both the lenders and borrowers get a fair deal.
- (iii) Will advise on debt policies in times of commercial strain; and how the debt burdens can be adjusted to changing foreign trade positions.

The tasks before the Central Asian Commercial Corporation will be many and of a varied nature, and can only be indicated broadly under the following heads:

(a) *Pooling of Commercial Information.* The previous chapters have shown the defective organization of the statistical and commercial services of Asian countries. Broadly speaking, Asian countries have so far largely depended for commercial intelligence regarding Asia's raw materials, intra-Asian trade, national trade statistics, etc., on foreign publications and reports. There has yet been no proper and co-ordinated set of statistics compiled by an Asian statistical organization for the special use of Asian countries and with special reference to intra-Asian problems as such. This makes the task of statistical interpretation extremely difficult and, broadly speaking, the present gaps in the analysis of intra-Asian trade are so large and so many that a scientific study of future prospects becomes nearly impossible. The proposed Central Commercial Corporation must obviously take up this question; and fill in as many gaps as possible.

(b) *Position of Japan.* Japan's trade in the pre-war years has been analysed in some detail in previous chapters and it has been argued that Japan will not be able to stage a rapid recovery in the post-war period; and that she will become a heavily deficit country on current account and will remain so for at least another decade or more.

Japan has played a large part in world, as also intra-Asian, commerce; she has a large industrial capacity of her own; her population is technically trained and industrious; and she has always been and must always remain an integral part of Asia as such. She has helped to build up intra-Asian trade, and properly guided and assisted, she can yet be made to play a very useful part in the economic development of the Asian nations. It will help no one to keep Japan in her present position of economic collapse and dislocation, while it might help Asia a great deal if Japan's economic recovery is expedited and directed towards the development of the whole continent.

The long-range task will therefore be to devise the means of utilizing the potential capacity of Japan for the development of Asia as a whole, and, at the same time, to ensure that she is not allowed to revert to her aggressive commercial policies of the past years. A properly developed and co-operative Japan can be a great asset to Asia and it is to be hoped that a rapidly recovering Japan will soon be brought within the orbit of the co-operative schemes of a pan-Asian nature.

The problems arising out of the existing vacuum created by the disappearance of Japan will also need constant review. In the first place, the task will be to fill in this vacuum as best and as economically as possible; and having filled it in, the second task will be to ensure that proper room is also left for the gradual expansion of Japan during the next few decades. It would be most harmful for all the countries concerned if the structure required to fill in the present vacuum has later to be pulled down completely. This is an enormous task and can only be handled by an Intra-Asian organization, since Japan's trade in the past had been largely with the Asian countries.

(c) *Capital Equipment.* There is no doubt that all the Asian countries are now launched on a career of large-scale industrialization; and experience all over the world shows that the initial stages of industrialization have always been hard to achieve.

Asia is going to require much technical equipment, technical advice, external finance and above all, the co-operation and good-will of the industrialized nations of the world.

There is thus enormous scope for world co-operation in this sphere and the various international commissions of the United Nations are expected to deal with many of the aspects of this question. But there is yet no intra-Asian organization to promote the special interests of the various Asian countries as such, to eliminate competitive bidding among the Asian countries themselves for equipment in short supply, to explore the prospects of Asian countries being able to increase the manufacture of their own equipment, etc. These and allied

problems will best be taken up by the proposed Central Asian Commercial Corporation.

(d) *Foreign Investment.* Chapter IV has emphasized the part foreign investments have played in the development of Asia's foreign trade and how the balance of trade positions of the various countries have been affected by foreign debt. An analysis of the burden of foreign debt has also revealed that foreign debt has not led to any drain on Asia's resources and in all probability the foreign investor has not been able to recover his full interest and dividends

But the problem of foreign debt is a very complicated one. In the first instance, there is no definite and fixed pattern of lending and borrowing; secondly, entrepreneur investments raise complicated political issues; thirdly, there never has been any regulation or adjustment of debt to suit the changing exigencies of trade; and finally, we have yet no idea as to the new problems which war devastation will raise nor of the flow of foreign capital which will be essential to ensure the full development of Asia

That Asia has benefited from foreign debt is undeniable and it is also certain that her foreign debt has not subjected her to any great economic strain. But the whole problem requires more constructive and co-operative action than it has so far received; and this is obviously a subject which a specialized branch of the proposed Central Asian Corporation must take up.

(e) *Merchant Marines.* Service income is to-day nearly as important as the income received from foreign trade. Lack of merchant shipping involves a strain on a country's balance of payments and the income from the carrying trade accrues to countries which are neither the producers nor the consumers of the articles traded. The concentration of merchant marines in the hands of a few countries also raises many strategic problems.

It can therefore be argued that the time has come to bring all the merchant marines of the world under the ownership and control of some international organization; and this subject deserves careful attention.

DEVELOPMENT OF ASIAN & INTRA-ASIAN TRADE

The greatest impetus to Asia's industrialization will be imparted by an increase in her foreign trade. Experience of industrialized countries all over the world shows that the rate of growth of foreign trade in the initial stages of industrialization has always outpaced the rate at which industrial production has increased. For, increased foreign trade, assuming there is also an increase in transport and other services, results in the expansion of domestic, or one might say rural, markets in which primary products are sold in larger quantities and at higher prices than would be the case in the absence of foreign trade. And, until domestic industries are more fully developed, this results in increased imports of manufactured articles which are so essential for raising the standards of living.⁶

Although Asia's imports consist primarily of manufactured articles, it must not be supposed that industrial and technological progress has benefited the Asian populations to any great extent. In fact, the consumption of manufactured articles in Asia has always been deplorably low as compared with the absolute requirements of the people or with the consumption of industrialized countries. While Asia must do everything in her power to maintain and increase her extremely low consumption of manufactured articles, she must at the same time begin to build up her manufacturing industries. In short the volume of imports of all kinds of finished products as well as of capital equipment must increase several times over the pre-war levels.

Nevertheless, the problem as it has been posed in all the Asian countries, including India, China, Japan, Ceylon and Burma, has assumed a form which is altogether different. It has been argued that the imports of manufactured articles

6. According to the League of Nations' *Industrialisation and Foreign Trade*, it was found that 'a high manufacturing production per capita usually accompanied a high per capita import of manufactured goods and that countries lagging behind in industrial development appear generally to be small per capita importers of consumer goods.' P. 87.

should be drastically cut in order to make greater room for increased imports of equipment and to reduce foreign competition in the home market. Such arguments exaggerate, on the one hand, the speed at which industrialization can be achieved anywhere in the world, and especially in Asia; on the other, they under-estimate the enormous need for increased consumption of factory products as a means of raising efficiency and hastening industrialization. For, Asian industrialization will not achieve satisfactory results if it involves a further lowering, however temporary it might at first seem to be, of the existing low levels of consumption.

Viewed as such, the first and by far the most important objective of Asian commercial policy will be to increase the domestic production and exports of raw materials and primary products by every means possible, including, should large exports prove necessary, a drastic regulation of domestic consumption. This would raise the purchasing power of the millions of Asians and increase their effective demand for finished products. Over three-fourths of Asia's millions are engaged in primary production, and the experience of industrialization, especially in China and India, shows that it has done, relatively to the sacrifices involved in terms of real effort and the diversion of real resources, little to bring higher living standards to the cottage dweller. On the balance, the countryside has probably become the poorer for the disruption of handicrafts which unbalanced industrialization has brought about and the migration of its most productive and progressive sections to urban slums.

The process suggested here is thus different from the one which has hitherto been advocated in Asia. The emphasis here is on the maximum utilization of primary products as a means of accelerating industrialization rather than import restrictions. Otherwise Asian industrialization will remain, as at present it is, a hot-house plant which will never thrive in the Asian climate.

It is therefore argued that the ultimate success, as also the initial growth, of Asia's industrialization will depend on the success of her effort to maximize her income from the raw materials in which she enjoys comparative natural advantage.

High though the present prices are and great though the present demand is, the task is by no means simple. A wide range of synthetic substitutes have come into commercial use during the war, and the industrial technique has in a large measure been adapted to them. Non-Asian sources of supply have also been tapped and many of them have been developed. And much damage to existing supplies within Asia herself has taken place. Constant vigilance over her abundant resources of raw materials is the price Asia must pay for industrial aspirations and that vigilance can only be exercised by some pan-Asian organization.

As regards imports, the difficulties in the acquisition of capital equipment have already been mentioned and the lines of intra-Asian co-operation have been suggested. As the figures in Chapter III and IV have shown, Asia was never a large importer of capital equipment. Her absorption of capital equipment will only begin to increase on a substantial scale, after the present period of rehabilitation is over.

In the meantime, the bulk of her import trade will continue to be in manufactured articles of the cheaper varieties; and this is a field which offers much scope for intra-Asian effort. India can help a good deal in making up the gaps in the present short supplies and Japan can also take some part in it. The present conditions also give many opportunities for the revival of national handicrafts and for establishing new channels of imports within the Asian countries themselves. The Central Asian Commercial Corporation is obviously the organization which must take up this question and draw up lines for the future development of intra-Asian trade and for promoting the manufacture of articles which Asian populations require and which can be easily manufactured within Asia herself.

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